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NAVAL POSTGRADUATE SCHOOL

MONTEREY, CALIFORNIA

THESIS

**SOWING THE SEEDS OF CIVIL WAR: REGIME
DESTABILIZATION AND THE ADOPTION OF
NEOLIBERAL ECONOMIC POLICIES IN SYRIA**

by

Kelli A. Guffey

June 2017

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Anshu Chatterjee
Robert Looney

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**SOWING THE SEEDS OF CIVIL WAR: REGIME DESTABILIZATION AND
THE ADOPTION OF NEOLIBERAL ECONOMIC POLICIES IN SYRIA**

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Submitted in partial fulfillment of the
requirements for the degree of

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from the

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ABSTRACT

Syria's devolution into civil war over the last five years has left that country devastated. The conditions there raise several questions about the causes of pronounced socioeconomic stratification between the political elite and the average citizen, which steadily worsened after President Bashar al-Assad came to power in 2000 and eventually resulted in a civil war. This thesis asserts that the Assad regime's implementation of a wide range of liberal economic reforms, under the guidance of the IMF, ultimately contributed to instability in three main ways. First, these reforms disproportionately harmed the agricultural sector that employed the majority of Syrians. Second, these reforms cut social services in the overcrowded cities that were stretched thin by the influx of Iraqi refugees after the U.S. invasion in 2003, which also saw an increased migration from the agricultural areas when a severe drought hit the agriculture areas in 2006. Third, these reforms produced discordance in the power structure by changing the beneficiaries from the old Ba'athist guard to new Alawite crony-capitalists, which resulted in seething resentments. This research shows that the new elite competition along with the authoritarian nature of the regime prevented an appropriate response to the crisis, eventually leading to violence.

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LIST OF ACRONYMS AND ABBREVIATIONS

BBC	British Broadcasting Corporation
CCN	Cable News Network
CMC	Syrian Credit and Monetary Council
CNPC	China National Petroleum Company
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IMF	International Monetary Fund
ISI	Import substituting industrialization
MENA	Middle East and North Africa
NYT	<i>New York Times</i>
RRLA	Resource rich, labor abundant
SA	Structural adjustment
SAP	Structural adjustment plan
SPC	Syrian Petroleum Company
UNDCP	United Nations Development Center
UNHCR	United Nations High Commissioner for Refugees
USDA	United States Department of Agriculture
WFB	World Food Bank

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I. SOWING THE SEEDS OF CIVIL WAR: THE ADOPTION OF NEOLIBERAL ECONOMIC POLICIES IN SYRIA

Syria's devolution into civil war over the last five years has left the country devastated. The conditions there raise several questions about the causes of pronounced socioeconomic stratification between the political elite and the average citizen, which steadily worsened after President Bashar al-Assad came to power in 2000 and eventually resulted in a civil war. Current casualty estimates from the United Nations claim over 400,000 people had been killed, and well over five million Syrians have registered as refugees since the start of the conflict. The humanitarian tragedy is on a scope that has not been seen since the Second World War. Syria has been set back decades in terms of development and is now functioning as a war economy that exists on both financial and material support from other nations. The Syrian Arab Republic's condition raises several questions of what led to this war and devastation. The main objective of this thesis is to examine the economic variables that may have influenced the conflict and de-stabilized the country.

A. MAJOR RESEARCH QUESTION

Several scholars point to a pronounced socioeconomic stratification between the Syrian political elite and the average citizen prior to the civil war, which had steadily worsened since President Bashar al-Assad came to power in 2000. Interestingly, the Assad regime implemented a wide-range of economic reforms toward a more liberal market economy under the guidance of the IMF. This thesis examines the sectors of the Syrian economy that felt the changes brought about by these strategies, which had come to full fruition by the start of the civil war in 2011. This thesis studies both the macroeconomic effects of economic liberalization as well as the microeconomic effects of the Assad regime's economic policies on different sectors in Syria to understand the impact of these reforms and how they were de-stabilizing to the state. How were the main sectors of the economy—agriculture, oil/manufacturing, business—in Syria shaped by the opening of the economy to the global market? How did the adoption of new economic policies affect Syrians dependent on each of these sectors for their livelihood?

This thesis holistically investigates the Assad regime's adoption of neoliberal economic policies, under the auspices of the IMF, and whether these policies contributed to instability in Syria.

B. SIGNIFICANCE OF THE RESEARCH QUESTION

So, reform in politics is important but it is not as important and urgent as the people waking every day and they want to eat, to have good health, to send their children to good schools. That is what they want. I want to feel safe in my own country. That is my goal.

—Syrian President, Bashar al-Assad¹

The Syrian Civil War remains a bloody stalemate between the Assad regime's government forces, various opposition groups, and international actors such as Russia, the United States, and the Turkish Republic. The conflict's impact cannot be overstated, as fighting continues to spill over into already precarious bordering states in the Middle East, and into the more economically-challenged states of the European Union. This movement of refugees in 2015 alone constitutes one of the largest movements of displaced persons and refugees since WWII with over a million Syrian refugees registered in neighboring Jordan, Lebanon, Iraq, and Egypt.² As a result of this mass refugee movement spilling over from neighboring Arab states into other states on the Mediterranean, the schism between the Greek government and officials from other states within the European Union has been exacerbated. While the impact of the more than 5 million registered Syrian refugees through the course of this conflict has been even more devastating to the neighboring Arab countries, the tension the situation has caused in Europe has had very real political consequences. The UNHCR reported figure of over 5 million refugees includes 2.1 million Syrians registered in Egypt, Iraq, Jordan, and Lebanon, 2.7 million Syrians registered by the Government of Turkey, as well as more

¹ Bashar al-Assad, Personal Interview, *Wall Street Journal*, January 31, 2011.

² United Nations High Commissioner for Refugees, *3RP Regional Refuge & Resilience Plan 2016-2017: IN Response to the Syria Crisis*, Last accessed May 30, 2016, <http://reporting.unhcr.org/sites/default/files/3RP-Regional-Overview-2016-2017.pdf>, 6.

than 29,000 Syrian refugees registered in North Africa.³ It is in this vein that the regional and international instability that has ensued due to the Syrian civil war warrants both academics and policy makers to explain what led Syria, under the Assad regime, down the path to a failed state.

This thesis explores how Syria, on a path of economic and social reform, devolved into chaos and civil war on a scale that has further de-stabilized the Middle East and threatens to do the same in the European states on the Mediterranean. The intent is to the limited research on globalization and international finance in Syria under Bashar al-Assad. This thesis sought to understand the correlation between globalization/ neoliberal economic policies, and the largely state-controlled economies of the Middle East, and to add to the limited research on the topic. By analyzing Syria, provided an in-depth case study of the socio-economic challenges of globalization on the state, and how specific neoliberal economic policies destabilized the state.

C. PROBLEMS AND HYPOTHESES

The purpose of this thesis is to answer the question of why, despite marked growth of Syria's GDP after the implementation of neoliberal economic policies, adopted under the auspices of the IMF, the country went from reforms to revolt to civil war. It is not logical to determine potential frameworks for a post-war Syrian economy if the economic performance and policies adopted prior to the outbreak of the war are not accurately analyzed. This thesis addresses that subject through determining which factors—both internal and external to the Assad government—were the most responsible for the precariousness of the economic schism in Syria prior to the outbreak of civil war in 2011. Based on the literature examined, several potential hypotheses emerged to help explain how the adoption of new economic policies produced or affected the civil war:

³ Syria Regional Refugee Response Inter-agency Information Sharing Portal, United Nations High Commissioner for Refugees, last modified June 6, 2017, http://data.unhcr.org/syrianrefugees/regional.php#_ga=1.162828860.1816613414.1474058056.

H1: The flow of international finance has increased both economic inequality and poverty through a decline in the state's provision of social welfare.⁴

HI assumed that as Syria transitioned from a state-run economy to a participant on the global market, the government rolled back on social programs that were previously the purview of the state. It was this lack of provision with respect to social services that greatly influenced the people to rise up.

H2: The flow of international finance only benefited a small, elite circle within Syria that is strongly linked to the Assad regime. This further exacerbated sectarian tensions in the country.

H2 assumed that because the economic growth in Syria only benefited a small subset of the population, the perceived injustice was de-stabilizing and contributed toward violent, sectarian conflict.

Due to exacerbation of socioeconomic and sectarian divisions within Syria, both of these hypotheses have important implication for future transitions from statist to market economies.

D. LITERATURE REVIEW

This thesis evaluates how the implementation of neoliberal economic reforms in Syria destabilized the state. The thesis develops hypotheses to explain the deficit between the relative economic growth achieved at a macro level after these reforms were enacted and the adverse effect of these reforms on Syrians at the local level. The outcome of this research helps explain how the economic success of transitioning to a market economy created a setting, which, combined with drought and other such crises, led to increased protest and civil war during the same decade. The purpose of this literature review is to provide the theoretical framework for this research and to analyze the literature available that details historical policies and approaches of Syria's economic reforms under President Bashar al-Assad. This literature will begin by examining the theoretical framework of ideas associated with Syria's economic reforms. In particular, economic liberalization, globalization, the welfare state concept, and causes of civil wars will

⁴ Hamed El-Said and Jane Harrigan, "Globalization, International Finance, and Political Islam in the Arab World," *The Middle East Journal*, 60, no. 3 (2006): 444.

be surveyed. The literature review will then delve into the specific case study of Syria to show how these theoretical concepts apply to the Middle East, and, more specifically, to Syria.

1. Economic Liberalization

In order to understand the effects of economic liberalization on Syria, it is first imperative to understand what is meant by economic liberalization, and further what is the motivation for adopting neoliberal economic principles. Joseph Stiglitz, Nobel-prize winner in economics, defines economic liberalization as, “the removal of government interference in financial markets, capital markets, and of barriers to trade.”⁵ Economic liberalization in this vein encompasses both capital and financial markets within a state. While Stiglitz argues the reasons that liberalization enjoyed so much widespread support in advanced industrial countries are still salient and warrant further academic research. Stiglitz provides several push factors that provide compelling reasons why developing countries choose to open their state economies to the outside world through liberalization: 1. according to Stiglitz, the “IMF insists on [a fast] pace of liberalization for assistance—and countries facing any sort of crisis feel they have to [acquiesce] to the Fund’s demands”;⁶ 2. “Capital market liberalization,” Stiglitz argues, “strips away the regulations intended to control money in and out of the country”;⁷ 3. free markets are thought to be more efficient, and will therefore allow for faster growth;⁸ and 4. liberalization will enhance stability by diversifying the sources of funding.⁹ These push factors provide a way to understand why the Assad regime, and other similar states, adopted economic liberalization policies when it did during the Damascus Spring in 2001. More importantly, Stiglitz argues that economic liberalization does not acknowledge that the economic developments that accompany liberalization will also require a transformation of society. This need for economic development to accompany

⁵ Joseph Stiglitz, *Globalization and its Discontents* (New York, W.W. Norton Company, 2003), 59.

⁶ Ibid., 62.

⁷ Ibid., 65.

⁸ Ibid., 67.

⁹ Ibid.

liberalization policies is not an integral part of the Washington Consensus approach nor is it a core tenet of the IMF. This is important to understanding the Assad regime's struggle to institute both economic and social reforms. Stiglitz argues that the case for instituting economic liberalization is compelling; however, the transition period is not always fully realized by the states instituting policies and relatively ignored by those advanced countries and international organizations pushing for liberalization. Syria may have experienced this, which the research will try to explore.

Amartya Sen, another Nobel-prize recipient, argues for the more idealistic nature of economic liberalization by espousing that the case for the freedom of market transactions is intrinsically tied to the basic importance of freedom itself, another important reason why states took on economic liberalization.¹⁰ Sen argues that, "to deny that freedom would be in itself a major failing of a society."¹¹ For Sen, economic liberalization is the preferred mechanism to place individual freedom at the center of the global economy. Freedom is seen as both the means and the ends of economic liberalization, which is believed to provide the most effective means of sustaining economic life, or rather, "development."¹² By intrinsically linking freedom and as a means of economic development which is gained through economic liberalization Sen makes a moral case for pressing states to reform. While Sen does not specifically discuss the idea of development as freedom in the Middle East, he does discuss overcoming economic deprivations in other parts of the developing world through liberalization. In the case of Syria, the adoption of liberalization became part of these larger trends across the world as it was offered as a solution to problems of development facing many countries.

2. Globalization

Closely linked with economic liberalization is globalization. An analysis of what is meant by globalization, what effects it has on weak or developing states, and what sort

¹⁰ Amartya Sen, *Development as Freedom* (New York, Anchor Books, 1999), 112.

¹¹ Ibid.

¹² Ibid., 36.

of systems need to be in place with in a state for it to function on a global market is critical to understanding whether the Assad regime's adoption of neoliberal economic policies, under the auspices of the IMF, contributed to instability within Syria.

Chen and Hule understand globalization as a "process of increasing international economic activities."¹³ They further define globalization as an increase in the liberalization of international trade for good and services as well as the movement of international capital, while cross border movement is still strictly prohibited. The theoretical model they constructed helps to understand the present world economy as well allocation effects on globalization. Chen and Hule argue that globalization with free trade will overall improve global welfare. However, their modeling approach does not address social, political, and cultural aspects to globalization.¹⁴ Particular discussions on the applicability of their modeling to rentier state economies are also missing.

Arguing that globalization is generally a misunderstood concept, Jha offers a new way of understanding the concept by combining economic and political theory that shows the consequences of rapid industrialization. In opposition to the vast amount of available literature, Jha attributes globalization not to the revolution in transport and information technology but rather to the barriers put in place during the era of the nation state to the free movement of labor.¹⁵ More importantly, Jha, a leading economist in the developing world, examines the role of the nation state in globalization, and how the actions of the United States, as the only super power, has eroded the Westphalian system.¹⁶ Jha argues that the United States uses coercive methods, often referred to as "compellence" and that this has been detrimental to trade unions, the welfare state, the nation state, and the Westphalian international order, all of which make up the political and economic institution that are the bedrock of civilized life.¹⁷ Understanding the global economy over

¹³ John-ren Chen ed. *Economic Effects of Globalization* (Brookfield, VT: Ashgate Publishing Company, 1998), 2.

¹⁴ Ibid., 26.

¹⁵ Prem Shankar Jha, *The Twilight of the Nation State: Globalisation, Chaos and War* (London, Pluto Press, 2015), 82.

¹⁶ Ibid., 190.

¹⁷ Ibid., 325.

the last several decades and the effect of globalization on developing countries provides the context for decisions made by specific regimes. While Jha does not specifically discuss Syria, other Middle Eastern states, namely Iraq, are discussed; whose instability and economic troubles had a lasting effect on the region. In addition, he presents another way of understanding economic liberalization relevant to this research because it shows the different effects that supranational organizations such as the IMF have had on domestic economic reforms in states.

Meanwhile Sassen suggests that the state continues to play a fundamentally important role, despite globalization. Furthermore, Sassen argues that states, more so than domestic firms or international organizations, will assume an even more important role in developing their state's political economy.¹⁸ If this assertion is valid, then we can posit that there are necessary conditions that may be set for engagement by nation states in the process of globalization. To this point, individual nation states can control and are responsible for setting the structural, monetary, and fiscal policies needed before opening up their economies to the global market. Sassen discusses concepts such as deregulation arguing that states may determine their own destinies by their ability to work through the process of setting new regulations, legislative items, court decisions, etc., that facilitate economic growth.¹⁹ For Sassen, in the era of economic liberalization and globalization, the state remains the guarantor of rights of that state's global capital. It is the nature of cooperation needed in the global economy that predisposes states to this. Sassen's complex theories on the convergence of national regulations and laws, global markets, and instituting private authority into state normativity are fundamentally important for developing states instituting economic reforms. While there is a plethora of research enumerating the outside pressures of globalization, there is a lack of research that deals with the effects of globalization internal to developing nations.

¹⁸ Saskia Sassen, "The State and Globalization," in *The Emergence of Private Authority in Global Governance*, ed. Rodney Bruce Hall and Thomas J. Blersteker (Cambridge, Cambridge University Press, 2002), 90.

¹⁹ Ibid.

3. Welfare State Concept

In his examination of the welfare state and rentier economic systems, Schwarz argues “that rentier states stand in contrast to states that have to rely on domestic resource extraction [because] they display a path to state-formation that defies the European path of state-formation.”²⁰ The Syrian regime has put in place a public sector centered on its nationalized assets, and a peasantry supported by state cooperative, which is a rentier economic system. The dependence of these rentier states on natural resources (mainly oil) weakens the power of the state because government does not have to acquiesce to societal needs and demands because it does not rely on taxation as a source of revenue. Schwarz further argues that because state-formation in a majority of rentier states did not occur in conjunction with “political accountability [and] transparency... the expenditure side of [their] public revenues is most clearly linked to a state-building agenda [which creates] societal peace and political acquiescence”—not necessarily re-investment for economic growth.²¹ On a theoretical level, Schwarz’s articles provide a perspective of state-formation that is centered on the development of states in the Middle East, particularly Arab states. Because Schwarz focuses on a functional understanding of statehood, the article thereby highlights where Arab states are strong and where they are weak.²² Schwarz sees social welfare as a moving pendulum on this weak-strong continuum wherein Arab rentier-economic systems provide social welfare when resources allow, and choose to cut social welfare programs first when there is economic crisis. This assertion tends to a larger discussion of what sort of social services that citizens should expect from a functioning state.

Schwarz and other scholars propose that what is expected from a functioning state in the Arab Middle East is fundamentally different from what is expected in the West due to the nature of state formation in the Middle East based around the rentier economic

²⁰ Rolf Schwarz, “The Political Economy of State-Formation in the Arab Middle East: Rentier States, Economic Reform, and Democratization,” *Review of International Political Economy*, 154 (2008): 601.

²¹ Schwarz, “The Political Economy of State-Formation,” 599.

²² Ibid.

system.²³ To this point, war-making and state-formation have not happened in concert with one another in the Arab Middle East, which shows the rentier-effect on state formation in two very important ways: 1. the excess oil revenues in the hands of Arab states reduced the necessity to tax their own population, and 2. modern rentier states are able to provide welfare and a semblance of wealth to their citizens because of excess revenues.²⁴ Theoretically, understanding the rentier nature of the Arab state as the linkage between state-formation, war making, and stability is crucial to determining causation of civil war in Syria. The same rentier system employed by Arab states that are coercive and authoritarian in nature, also allows for institutional weakness that makes coping with the challenges of economic reform and globalization even more problematic.

4. Understanding Civil War

The preponderance of literature examined on civil wars was to understand how economies may be driving factors toward civil war by establishing preconditions that can de-stabilize a regime. The World Bank project has identified a set of statistically significant correlates of civil war known as the “Collier-Hoeffler Model of Civil War Onset.”²⁵ Collier and Hoeffler advocated an economic model for civil war that argues civil wars happen when they are economically feasible, or rather, that a rebellion must be financially viable. It is in this vein that policy makers should be able to design policies that counteract financial viability of rebellion. The Collier-Hoeffler model analyzes civil war and rebellion as they relate to both motive and opportunity; however, the model sees opportunity as the primary determining factor of rebellion, which makes this model a useful framework for an analysis of the Syrian Civil War.²⁶

²³ Schwarz, “The Political Economy of State-Formation,” 611.

²⁴ Ibid., 609.

²⁵ Paul Collier and Nicholas Samanis, eds., *Understanding Civil War, Volume 2: Europe, Central Asia, and Other Regimes* (Washington, DC: International Bank for Reconstruction and Development/The World Bank, 2005), XIII.

²⁶ Ibid., 3.

5. Economic Growth/Globalization in the M.E.

To gain a better understanding of the relationship between economic growth and globalization in the Middle East, I will examine three main questions: 1. why was economic liberalization prevalent in the later part of the 1980s and into the 1990s?; 2. how does economic liberalization and globalization apply specifically to the Middle East?; and 3. what is the nature of the discourse on the topic by Middle East scholars? To the first point, many scholars have cited that during the 1980s many developing countries that faced varying degrees of economic distress turned to the IMF and World Bank for financial support in the form of economic aid or debt forgiveness.²⁷ The Arab world was no exception to this, though the predominance of literature on economic reforms during this time period focuses on Latin America. The “Washington Consensus,” —and its prescription for immediate trade liberalization combined with large cuts in government spending and imposition of new taxes—had its heyday in the 1980s, and this mindset was pervasive.²⁸

To the second question, the Middle East and the 1980s and into the 1990s witnessed a new era in not just global order with the end of the Cold War, but also numerous regime changes in the MENA region. As things evolved on the political front in the Arab World, these new rulers, more often than not, were turning to their form of economic liberalization in the hopes of gaining favor and support from the IMF.²⁹ The Arab states that did not start to liberalize economically were “disciplined or contained.”³⁰ Syria at this time was not the Bretton Woods poster child as regimes such as Tunisia or Morocco could be characterized. Dr. Raymond Hinnebusch, leading expert on political economy in the Middle East (particularly Syria), has researched how the economic crisis the Arab world faced in the late 1980s led to a consensus among the ruling party in Syria that private investment was the only solution to the exhaustion of Syria’s statist

²⁷ Hamed El-Said and Jane Harrigan, “Globalization, International Finance, and Political Islam in the Arab World,” *The Middle East Journal*, 60, no. 3 (2006): 448.

²⁸ Ibid.

²⁹ El-Said and Harrigan, “Globalization, International Finance, and Political,” 450.

economy.³¹ Hinnebusch argues that as the Syrian state started down the path of economic liberalization it saw private and foreign direct investment as a precursor to opening up other sectors of the Syrian economy.³²

To the final questions, the overwhelming opinion of Middle East specialists view, economic liberalization in the Middle East as particularly difficult because of the “social effects of reform, coupled with demographic trends, and the depletion of natural resources.”³³ The depth of these social and developmental challenges not factored in to the mainstream calculus of globalization will be the focus of research to form clear policy recommendations for Arab states in an era of increased globalization. Social and developmental challenges unique to the Arab World will also be studied to understand how international organizations may better facilitate the changes inherent with globalization. In particular, the work of Dr. Samer Abboud will be most helpful to understand the differences in economic liberalization in the Middle East in comparison with other developing areas around the world. Abboud’s research primarily focuses on the political economy of the Syrian conflict, and places emphasis on “the matter of capital flight and its implications on Syria’s reconstruction.”³⁴ Abboud has argued that it is a model of social, economic, and political organization that is in support of state-building rather than economic development underpins statism in the Middle East, particularly in Syria.³⁵ Abboud’s research will serve to provide an understanding on what the social market economy entailed in the Syrian context during reform, as well as how this version of a social market economy drove the public narrative in Syria.

³¹ Raymond Hinnebusch, *Syria From Reform to Revolt, Volume 1: Political Economy and International Relation*, ed. Raymond Hinnebusch and Tina Zintl (Syracuse, NY: Syracuse University Press, 2015), 7.

³² *Ibid.*, 6.

³³ Bassam Haddad, “The Political Economy of Syria: Realities and Challenges,” *Middle East Policy*, 18:2 (2011): 54.

³⁴ Samer N. Abboud, “Former Visiting Scholar Middle East Center Biography,” Carnegie Endowment for International Peace, last accessed May 31, 2017, <http://carnegieendowment.org/experts/?fa=809>.

³⁵ Samer N. Abboud, “The ‘Social’ in the Social Market Economy,” in *Syria From Reform to Revolt, Volume 1: Political Economy and International Relation*, ed. Raymond Hinnebusch and Tina Zintl (Syracuse, NY: Syracuse University Press, 2015), 47.

6. Political Climate

Many authors lauded Bashar al-Assad's rise to power after his father's death and discussed, with more than a tone of lament, that he provided hope to Syrians and the international community as a whole.³⁶ The political climate and economic reform have been inextricably linked since Bashar al-Assad took office in 2001. The world financial crisis, as argued by Marshall, finally "seem[ed] to have forced the pendulum back in the direction of reform" with even hardliners in the Assad regime calling for more economic liberalization though patronage politics willing to be initiated by the regime in order to achieve liberalization-centric reforms and economic growth- which was, arguably, counterproductive.³⁷ The overall argument by most literature on the political climate for economic reform prior to the outbreak of civil war is authoritarian in nature. The Syrian regime was unlikely to cede any real power or dominance in the name of economic reform because the regime's survival depends on the control of the patronage system within the state—of which the newly "privatized" financial system in Syria is a large contributor.³⁸ Gifford succinctly summed up the political climate asserting that, "Syria's meager economic opening has contributed to even greater cronyism and concentration of resources among the regime elite."³⁹

7. Syrian Civil War and Regional Literature

The Syrian revolt turned civil war against the Ba'athist regime is different than the revolution seen in Tunisia, Egypt, Yemen, and Libya because Syria's largest cities did not take the lead in inciting the insurrection.⁴⁰ This concept of geography plays an important role in understanding not only the nature of the uprising but also a comprehensive look at the effects of poverty and inequality in different regions of Syria. Al-Khajafi's extensive work on *De-Urbanizing the Syrian Revolt* provides the geographic

³⁶ Shana Marshall, "Syria and the Financial Crisis: Prospects for Reform?" *Middle East Policy*, 16:2 (2009):106.

³⁷ Ibid., 108.

³⁸ Ibid., 110.

³⁹ Lindsay Gifford, "Syria: The Change That Never Came," *Current History* (2009): 421.

⁴⁰ Isam Al-Khajafi, "De-Urbanizing the Syrian Revolt." *Arab Reform Initiative* (2016): 2.

framework through which to understand the causation and correlation of economic liberalization policies and their effect on different parts and socioeconomic classes of Syria.⁴¹

As the tragedy of the Syrian conflict continues to deepen, information on the ground becomes more difficult to find, and there is a definite fear that some of the history of the conflict and the reformers within the country will be lost. Of the literature, available detailing not only the conflict, but also the modern history of the Syrian Arab Republic, the most comprehensive has been Raymond Hinnebusch and Tina Zintl's *Syria from Reform to Revolt: Volume I*. This volume discusses the division and uncertainty surrounding Bashar al-Assad's rise to power in July of 2000 after his father's death, and also explores how Bashar al-Assad's domestic and foreign policy differed from the status quo under the Ba'ath party.⁴² Major Syrian policies discussed in the volume include: consolidation within the Ba'ath party to insulate the regime; controlling movements in opposition to economic reform; how the regime co-opted private charities; as well as the ability of Syrian cities and towns to cope with the massive influx of Iraqi refugees. The volume clearly details both the risks associated with these policies and the shortcomings inherent in their implementation.⁴³ The book further illustrates why a seemingly stable Syria came to an abrupt end with the uprising in the early spring of 2011. This volume is particularly useful for this research because it showcases the work of several international scholars that represent a variety of disciplinary backgrounds, which is key to understanding the current crisis in Syria, particularly as the crisis relates to economic reform.

Other authors of note on Syria include David Lesch, whose book *The Fall of the House of Assad* details the causes of the Syrian uprising and the regime's tactics to

⁴¹ Khafaji, "De-Urbanizing the Syrian Revolt," 3.

⁴² Raymond Hinnebusch, *Syria From Reform to Revolt, Volume I: Political Economy and International Relation*, ed. Raymond Hinnebusch and Tina Zintl (Syracuse, NY: Syracuse University Press, 2015), 2.

⁴³ Ibid.

remain in power.⁴⁴ While the book is interesting because of the author's personal contact with Bashar al-Assad, the social context of the revolution and a discussion of the political economy are missing from its analysis. As well as Nikolas Van Dam, a Syrian specialist, who places special emphasis in his writings and research on the assumption that, "Arab nationalist and class loyalties are developing in Arab society, thereby replacing traditional particularist loyalties and commitments."⁴⁵ This assertion is critical in the thesis's representation of the overlap between sectarian, regional, tribal, and socio-economic groups in Syria.

8. Conclusion

There is a gap in the research available on why economic reforms hindered the Assad regime's ability to respond to the needs of its citizens during the drought. There also seems to be a lack of literature on the number of Iraqi refugees within Syria, and how this large number of refugees may have also strained the states resources. This thesis seeks to contribute to the myriad of academic research on Syria under Bashar al-Assad by showing that the neoliberal economic reforms helped create a setting and sowed seeds that fomented the civil war. Lastly, there is little academic research on the involvement on the International Monetary Fund (IMF) and the World Bank between 2000 to the start of the Syrian civil war. This thesis hopes to help fill this gap through providing a better understanding of the involvement of both organizations in the political economy of Syria during these formidable years.

E. RESEARCH DESIGN

This thesis uses a comparative study approach, comparing the Syrian statist economy under Hafez al-Assad with the market economy developed through the neoliberal reforms of Bashar al-Assad beginning in 2000 through to the outbreak of civil war 2011. After a comparative, macroeconomic analysis of the Syrian political economy

⁴⁴ David W. Lesch, *Syria: The Fall of the House of Assad* (New Haven, CT: Yale University Press, 2012).

⁴⁵ Nikolaos Van Dam, *The Struggle for Power in Syria: Politics and Society Under Asad and the Ba'th Party*, 4th Ed. (New York: I. B. Tauris & Co. Ltd., 2011), 12.

during these two different time periods, the thesis analyzes how Bashar al-Assad's neoliberal economic policies affected different regions/ sectors in the economy in Syria to show the disproportionality of these reforms at a microeconomic level. Similarly, to the United Nations Development Center (UNDCP), I will be splitting Syria up into the following four geographic regions: the northeast, comprising Idlib, Aleppo, al-Riqqa, Deir al-Zor, and al-Hasaka; the coast region, comprising Latakia and Tartuos; the central region, comprising Homs and Hama; and the south, comprising Damascus, rural Damascus, Da'ra, Suweida, and al-Quanaitra⁴⁶ to show the disproportionality of economic reforms on the different geographic regions. In particular, the southern and northeastern region are analyzed extensively due to their heavy economic dependence on the agricultural sector. This thesis uses the 2006–2009 drought that devastated the country, as well as the Da'ra uprising in 2011, as case studies to show the destabilizing effect of neoliberal economic reforms in the country.

This thesis will use all available primary and secondary scholarly sources, including but not limited to books, articles, theses, news articles, IMF documents concerning Syria, and government (both U.S. and Syrian) sources.

F. THESIS OVERVIEW

This thesis is divided into four chapters using the comparative analysis and case study format. Following the introductory chapter, Chapter II first examines the Syrian political economy under Hafez al-Assad's Ba'athist regime. Chapter II then analyzes how the Syrian political economy was affected by globalization and economic liberalization policies enacted upon Bashar al-Assad's rise to power. This chapter focuses on the macroeconomic picture. Chapter III is a microeconomic analysis of economic reforms from 2000 to the outbreak of the Syrian Civil War. This chapter discusses the Syrian regime's insufficient response to the most recent drought, the disproportionality of reforms absorbed by the agricultural sector, and how reforms led to discordance within

⁴⁶ Khaled Abu-Ismaïl, Gader Ali Abdel, and Heba El Laithy, "Poverty and Inequality in Syria (1997-2007)," *Arab Development and Challenges Report, Background Paper 2011/15*, UNDP (2011), http://www.undp.org/content/dam/rbas/doc/poverty/BG_15_Poverty%20and%20Inequality%20in%20Syria_FeB.pdf.

the regimes power structure. Chapter IV will be a discussion of social safety nets, media coverage of the fallout from reform, and also outlines implications for the future of neoliberal economic reforms.

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II. SYRIAN ECONOMIC REFORMS UNDER THE BA'ATHIST REGIME

To better understand frameworks of development trajectories—defined as patterns of economic change and structural transformation—a discussion of politics is essential.⁴⁷ In the case of the Syrian Arab Republic, the rule of the House of Assad, first under Hafez al-Assad and currently under his son Bashar, defines the politics for the state during the era of economic reform. Politics, as related to the economy, means the struggle over resources as well as the formal and informal rules and institutions that govern who controls what resources, and how this control is exercised. The basic unit of analysis is the Syrian national economy, which—like most of the Arab states of the Middle East—was in its infancy following the First World War.⁴⁸ This chapter will examine the history of the political economy in Syria at a macroeconomic level, specifically focusing on two main components: 1. the Syrian political economy from the time of the intra-Ba'ath party coup in 1970 that brought Hafiz al-Assad to power until his death in June 2000; and 2. the series of economic reforms under the auspices of the neoliberalist policies spearheaded by his son, Bashar al-Assad, upon his ascension to power in Syria through the devolution in to Civil War.

This macro-level assessment will, with a broad brush, show the growth of the national and per capita income in Syria from 2000 with Bashar al-Assad rising to power to the devolution into chaos in 2011, and how this relationship changed in three major sectors: agriculture, industry, and services. This three-sector model, first pioneered by economist Simon Kuznets, is the best fit for political economy studies of the region as a whole because this model places emphasis on agriculture and industry: two sectors that are mutually reinforcing in their ability to produce real growth in a given state.⁴⁹

⁴⁷ Melanie Cammet, Ishac Diwan, Alan Richards, and John Waterbury, *A Political Economy of the Middle East, Fourth Edition* (Boulder, CO: Westview Press, 2015), 9.

⁴⁸ Roger Owen and Sevjet Pamuk, *A History of Middle East Economies in the Twentieth Century* (London: I.B. Tauris Publishers, 1998), xv.

⁴⁹ Ibid.

A. OVERVIEW OF POLITICAL ECONOMY DEVELOPMENT IN M.E.

For most of the developing world, economic growth during the twentieth century follows a similar, prescriptive pattern. This prescription generally starts with an inward-looking phase wherein developing states would transition to enclosed systems that emphasize economic policies that nurture local manufacturing, otherwise known as import substituting industrialization (hereafter, ISI). The goal of the ISI model was quite simply to help developing countries escape the agrarian trap that imperial powers had placed upon them by allowing for the development and promotion of infant industries.⁵⁰ To escape the agrarian trap the state apparatus pursued industrialization policies that would have a cumulative effect through raising incomes in the country, which would in turn open new markets which would therefore allow for infant industries to grow in the country. These infant industries would in turn produce industrialization as experienced in Europe without competition and allow for an increase in domestic incomes. This increase in income would produce the capital accumulation needed to fuel the innovation to make these products competitive in the global market as the economy liberalized. Turkey was the first among the Middle Eastern states to, rather successfully, employ the ISI strategy and other states in the region attempted to follow suit in the 1960s and 1970s.

Despite international and state-led efforts, ISI floundered in the Middle East primarily due to the lack of protection given to the infant industries in conjunction with the disproportionate allocation of public resources given to them at the expense of agricultural sector.⁵¹ The rural populations could not generate the demand to keep these infant industries afloat, nor were these infant industries creating the jobs necessary to facilitate the worker transition from the agricultural sector in to the industrial sector. The high cost associated with these infant industries often combined with idle capacity and a monopoly over the domestic market which did not provide incentives to keep costs down or to operate more efficiently. The shrinking in the agricultural sector was not met with the needed growth in domestic industry to meaningfully employ those making the transition from rural areas to the cities in many of these states, Syria included. The high

⁵⁰ Owen and Pamuk, *A History of Middle East Economies in the Twentieth Century*, 47.

⁵¹ Ibid.

costs of manufacturing did not allow for many of these goods to be exported. Limitation of exports limited foreign currency exchange and, ultimately, curtailed the foreign direct investment (FDI) needed to import more raw goods and better equipment. These infant industries would lead to both a fiscal and balance of payment deficit, resulting in a financial crisis for most of these states that they were unable to weather, which was only exacerbated by an oil recession. The piecemeal application of the ISI model had only shaken the already fragile economic system; it had not brought the overwhelming industrialization to any of the states in the region that would have allowed them to compete in the global market.⁵²

Following the oil recession that plagued the Arab states (both oil exporters and importers) of the Middle East for most of the 1980s, a series of economic reforms were implemented by several states in the region. These neoliberal economic reforms, born out of the Washington Consensus, emphasized a particular mode of government-economic relations, and considered “capitalism and democracy as a tonic” that would cure economic underdevelopment.⁵³ These programs rested on the notion that market reform and a reduction of the state’s role in the economy would be achieved through stabilization and structural adjustment programs. The reforms focused on four main areas: 1. cutbacks in government spending; 2. privatization of state-owned enterprises; 3. reduction of barriers to trade; and 4. liberalization of interest and exchange rates.⁵⁴ Arab regimes implemented different elements of reform piecemeal throughout the region. These lines of effort focused on cutting back government spending instead of building institutional capacity in the states, which was not in keeping with the legacy of neoliberal economic

⁵² Julia Devlin, “State Formation, Consolidation, and Development, 1960s–1980s,” in *Challenges of Economic Development in the Middle East and North Africa Region* (Hackensack, NJ: World Scientific Publishing Company, 2010), 75.

⁵³ Kiren Aziz Chaudhry, “Economic Liberalization in Oil-Exporting Countries: Iraq and Saudi Arabia,” in *Privatisation and Liberalization in the Middle East* (Bloomington, IN: Indiana University Press, 1993), 145.

⁵⁴ Sufyan Alissa, “The Challenge of Economic Reform in the Arab World: Toward More Productive Economies,” *Carnegie Papers*, no.1 (May 2007), 3

reforms enacted in the U.S. or the rest of the developed world.⁵⁵ Furthermore, these policies were not as austere promoted or implemented in the U.S. or the developed world as they were in the recipient states in the developing world.⁵⁶ For example, the cuts to government spending and social services would never have survived first contact in a democratic, capitalist state; however, this will be discussed in further detail in the following chapter. At a macro-level, these reforms or structural adjustment (SA) were meant to rebalance state budgets and eradicate external debts to restore economic growth in the region. SA policies came to dominate the political economy of the region, and particularly damaging to what the World Bank refers to as “resource rich labor abundant” (or RRLA countries) in the MENA region, of which Syria is considered.⁵⁷

In order for SA to be effective, trade should be liberalized, markets opened, and public enterprises privatized. At the outset, this proved to be challenging for the RRLA countries that had yet to go through true industrialization which would have entailed moving labor and capital from industries that were not productive to sectors that could compete abroad. This fact, coupled with the left over inefficient business practices instituted during the ISI phase, would require a lot of political capital to have a change of success in any RRLA country. The Syrian Arab Republic, as will be shown, had a unique set of challenges on the eve of implementing SA policies due to its subscription to a unique brand of Arab socialism under the Ba’ath party, combined with a tenuous and diverse mix of ethnic and religious groups in the country.

⁵⁵ International Monetary Fund, *Staff Report for the 2009 Article IV Consultation: Prepared by Staff Representatives for the 2009 Consultation with the Syrian Arab Republic, IMF Country Report 10/86* (Washington, DC: IMF, 2010), 3.

⁵⁶ Rick Rowden, “The IMF Confront Its N-Word: The International Monetary Fund Admits that it’s Time to Discard Some of the Old Neoliberal Dogmas,” *Foreign Policy*, published July 6, 2016, <http://foreignpolicy.com/2016/07/06/the-imf-confronts-its-n-word-neoliberalism/>.

⁵⁷ Ndiame Diop, Daniela Marotta, Jaime De Melo, and World Bank, *Natural Resource Abundance, Growth and Diversification in MENA: The Effects of Natural Resources and the Role of Policies* (Washington, DC: World Bank, 2012), 27.

B. SYRIAN POLITICAL ECONOMY PRIOR TO BASHAR AL-ASSAD

1. The Ba'athist Effect on Political Economy

Hafiz al-Assad ruled the Syrian Arab Republic from the time of the intra-Ba'ath party coup in 1970 until his death in June of 2000. The sectarian, tribal, and regional loyalties that were factors in his rise to power in Syria have undoubtedly played a role in the political economy of the country, and, as such, warrant analysis. Our aim is to focus on how these factors shaped the political economy of the state prior to the start of SA reforms under Hafiz al-Assad's son, Bashar al-Assad, and will therefore only briefly touch on the politics and society of the Syrian Arab Republic during the elder Assad's struggle for power. There are two main factors that worked in favor of Hafiz al-Assad in comparison with other domestic factions in Syria that were vying for power and other states in the MENA region: the rise of religious minorities to positions of power, and Hafiz al-Assad placing primacy on expanding the country's military strength vis-à-vis Israel over the socialist ideals of the Ba'ath party.⁵⁸

2. The Rise of the Alawis

The rise of religious minorities in Syrian political life since the breakup of the United Arab Republic in 1961 is critical for understanding the politics because it was a divergence from the traditional power structure in Syria, which was overwhelmingly Sunni-led. A hold-over from the days of the Ottoman Empire, sectarian loyalties were also stressed under the French Mandate to assuage an assertion of Arab nationalism, and religious minorities like the Alawis and the Druze were granted a degree of autonomy to keep them separate from the political consciousness of the majority Sunni Muslim country.⁵⁹ This divide and rule policy instituted under the French, as some scholars have argued, stifled the ability of Syria to develop a political consciousness as a nation-state.⁶⁰ Instead the pan-Arab identity of the state was emphasized or loyalty to a particular region

⁵⁸ Van Dam, *The Struggle for Power in Syria*, 63.

⁵⁹ Ibid., 4.

⁶⁰ Michael Van Dusen, "Political Integration and Regionalism in Syria," *Middle East Journal*, 26, no. 2, (1972): 123.

within the state, which typically had a tribal/ethnic/religious component to it. This has allowed for a polarization in Syrian society between Sunnis and Syria's religious minorities, and is also correlated to development patterns in the state.

For Syria's religious minorities, the significance of one's religious identity is that it ties them together as a community defined by particular political and social interests. Religiosity is not necessarily an important factor in the community. These different religious communities are not distributed evenly throughout Syria, and are instead concentrated in specific Syrian provinces. For example, over 75% of Alawis lived in the Latakia region—with most traditionally working in the agrarian sector, while the coastal cities and towns were overwhelmingly Sunni until the 1970s.⁶¹ Coastal cities such as Latakia were an outpost of the Sunni-led capital of Damascus until Hafiz al-Assad's rose to power, and the Sunnis held dominion over the agricultural lands surrounding the city. Distrust festered between the Alawi majority population and their Sunni overlords for decades in the Latakia region. While this distrust between Sunni and Alawi has not been assuaged under either Hafiz or Bashar, the socioeconomic conditions for the Alawiite community have improved significantly since the Ba'athist takeover, with Latakia and Dar'a provinces enjoying significantly higher government-led growth and development projects, which will be examined in the following chapter.

The rise of the Alawis in Syria increased minority participation in the armed forces and in the Ba'ath party. Ideologically, the Ba'ath Party, founded in Damascus in 1940 by Michel Aflaq (a Greek Orthodox Christian) and Salah al-Din Bitar (a Sunni Muslim),⁶² was supposed to represent cultural unity that allowed the Syrian state identity to transcend above all other forms of factional solidarity. This, however, denied the social reality in Syria of religious/sectarian channels that relied on regional politics with specific goals. While the party may have been founded in Damascus, the initial party members were overwhelmingly from rural (minority) areas of the country that came to the capital for education; therefore, it was a rural party. The socialist ideals of the Ba'ath party were particularly attractive to rural and minority populations in Syria for two main

⁶¹ Van Dam, *The Struggle for Power in Syria*, 7.

⁶² *Ibid.*, 15.

reasons: 1. minority populations in the large cities and the rural areas surrounding them were traditionally dominated by a Sunni-bourgeoisie class—a holdover from the Ottoman reliance on urban notables—and thus the socialist underpinnings of the Ba’ath Party were amenable to disenfranchised communities; and 2. there was a secularist character to the Ba’ath Party’s nationalism, which attracted the minorities. Historically, Arab nationalist movements (e.g., the Muslim Brotherhood) tied their brand of nationalism with Sunni Islam as a defining factor. The Ba’ath Party de-emphasized the role of religion, and espoused a united, secular Arab society with a socialist system. This “Arab socialism” envisions a society in which all Arabs are equal, and the state plays a crucial role in developing large public sectors, driving economic growth, and providing social programs and economic privileges to its citizens.⁶³ Arab socialism is unique from other forms of socialism because it does not completely disregard the role of religion within society, but rather subjugates a citizen’s religious identity to that of their national identity to the socialist republic.

3. Ideological Struggle to Define the Ba’athist Agenda

The time from the establishment of a Syrian state that was free from the yoke of French Mandate until Hafiz al-Assad’s official ascension to the Syrian presidency in 1970 was mired in a series of coups. The infighting within the Alawi community for control of the Ba’athist party agenda defined the political economy of the Syrian state for the coming decades. This power struggle raged between the two most prominent members of the Alawi community: Hafiz al-Assad and Salah Jadid. From 1964 until al-Assad’s ascension to the presidency, these two men of the Ba’athist Military Committee sought to control the party. Jadid succeed in maintaining his grasp over the Syrian civilian party apparatus, while al-Assad retained supremacy over the Syrian Armed Forces.⁶⁴ Both men had divergent views of the party, and each shaped the Syrian state in the future, both domestically and internationally.

⁶³ Karen Pfeifer and Marsha Posusney, “Arab Economies and Globalization: An Overview,” in *Women and Globalization in the Arab Middle East: Gender Economy & Society*, ed. Eleanor Abdella Doumato and Marsha Pripstein Posusney (Boulder, CO: Lynne Rienner Publishers, 2003), 35.

⁶⁴ Van Dam, *The Struggle for Power in Syria*, 67.

In this vein, al-Assad believed in ending Syria's isolation in the world and sought rapprochement with more conservative Arab states. Assad believed that a more unified Arab front (one in which the Arab states put aside their differences with one another) was the best way to effectively fight Israel. Meanwhile, Jadid and his allies within the Alawiite community argued that only a more progressive, socialist Arab state would be able to challenge Israel due to development of socialist institutions.⁶⁵ Measurable success in surprising the Israelis in the 1973 War solidified al-Assad's position in the Alawiite community and essentially put the issue to rest. The domestic, socialist transformation advocated as the main priority for the Ba'ath Party by Jadid and his supporters took a back seat to strengthening the Arab military potential through investing even more heavily in the Syrian Armed Forces. While there were anti-regime propagandists who insinuated that the Syrian Ba'ath regime was more concerned with first being Alawi, then Ba'athist, and finally Syrian, the al-Assad regime had to maintain its firm hold on power through maintaining loyalty within the Alawi community. This maintenance of the power structure in the state was, first and foremost, considered by most scholars to be where any formidable opposition to Assad's power would potentially come from.⁶⁶

4. Rise of the Syrian Statist Economy

The socio-economic realities in Syria have changed drastically since Hafiz al-Assad came to power with the November 1970 coup, and the decision to move the Syrian Ba'athist regime in to a more formidable military situation has had a profound impact on the course of economic development. If taken holistically, the change and development during from the early 1970s through the 1990s looks impressive. As renowned economist and Syria expert Volker Perthes noted in 1995, "the Syria of the 1990s produced fertilizers, iron bars, cables, tires, electrical engines, and a choice of medical drugs and consumer articles. None of these were part of the country's productive spectrum in 1970."⁶⁷ Perthes further goes on to argue that when the macroeconomic picture is viewed

⁶⁵ Van Dam, *The Struggle for Power in Syria*, 71.

⁶⁶ Ibid., 73.

⁶⁷ Volker Perthes, *The Political Economy of Syria Under Assad* (London: I. B. Tauris, 1995), 23.

not from start to finish but rather by the progress made in each individual decade, the 1980s are a lost decade for Syria in terms of development, and that the 1990s had (up until his writing in 1995), seen no real transformation in the public and private sector that would lead to sustained economic growth.⁶⁸ While the Syrian economy has undergone some diversification, under Hafiz al-Assad's rule, the macro-economic indicators (i.e., GDP structure and distribution of employment throughout different sectors of the economy) show that the economy has not been able to achieve a sustainable level of industrialization. As shown in Table 1, the change from an agrarian to an industrial economy had not happened on the eve of the 21st century.

Another component to the statist economy that Bashar al-Assad would inherit from his father involved the relative autonomy the regime enjoyed in economic and development policy-making.⁶⁹ There was little direct intervention by external actors in the Syrian economy, putting aside the reliance on external rents and the curse of being dependent on the oil market. Unlike other states in the region, the Assad regime was able to craft and implement economic policies that would further its political goals. Hafiz al-Assad placed a premium on national security and regime stability, and any economic adjustment processes undertaken by his regime were used to reinforce these goals.

⁶⁸ Perthes, *The Political Economy of Syria Under Assad*, 24.

⁶⁹ Ibid., 36.

	GDP structure					Sectoral Dist. of Employment		
	1970	1980	1985	1990	1992	1970	1981	1991
Agricultural	20	20	21	28	30	51.0	26.0	28.2
Mining & Manufacturing	22	16	15	20	16	13.5	17.7	14.3
Building & Construction	3	7	7	4	4	7.3	17.5	10.4
Transport & Communication	11	12	10	9	9	4.2	6.8	5.1
Trade	20	25	22	23	24	9.5	9.5	11.6
Finance, Insurance, Real Estate	11	6	5	4	3	0.6	0.9	0.7
Services	13	19	20	12	14	13.8	21.4	29.2
Employed (millions)						1.46	1.88	3.25

Note: All figures on employment, omit the military, and understate the informal urban sector jobs. Numbers derived from Statistical Abstracts 1992, 1993; Population Census 1970, 1981.

Table 1. GDP Structure and Sectoral Distribution of Employment (%)⁷⁰

Unlike the economy, which did not see any significant structural change under Hafiz al-Assad, the Syrian society has changed rapidly under his rule. The aforementioned decline of participation in the agricultural sector has been glaring, especially when one considers that half of the Syrian population in 1970 was employed in agriculture while the numbers in the early 90s show less than 30% of the population employed by agriculture.⁷¹ Combined with the decline in agricultural jobs is an increased birth rate across the country and fewer Syrians living in the rural parts of the country. This may be considered a success story had the increase in urbanization been in conjunction with an overall growth in labor sector jobs in the cities, but this has not overwhelmingly been the case. Sustainable, modernizing development should have seen a growth in the middle class as well, but those numbers have not kept pace with the population growth across any of the industries, and internal migration from the rural areas into the cities continues to be a problem. While the Ba'ath regime has taken substantial

⁷⁰ Perthes, *The Political Economy of Syria Under Assad*, Table II.2, 26.

⁷¹ Ibid., 80.

steps toward improving rural living conditions, there is still a marked difference between the standard of living in the countryside and in the cities.

The last element of the statist economy to set the stage prior to the transition of power from Hafiz to Bashar al-Assad involves the security apparatus. The central and most dependable instrument of power in the Assad regime is the combination of Syria's military forces, the intelligence community or *mukhabarat*, and the police. Since coming to power, Hafiz al-Assad has grown the security apparatus to an unprecedented and arguably impressive rate. The military, while not on equal footing to the Israeli Defense Forces, certainly poses a threat and has changed the political calculus in the region. In conjunction with an increase in troop numbers (some 80,000 in 1970 to over 430,000 in by the early 1990s), is an increase in the scope and agency of the Syrian Department of Defense.⁷² By the early 1990s, over 60,000 civilian government employees work in the department of defense and the economic sector of the department encompasses several industrial establishments and construction companies. As Perthes concludes in his critical work on the Syrian political economy under Hafiz al-Assad, "it seems that it is the privileged position of the security apparatus in the regime and the material privileges extended to its member that in general make it, more than anything else, a reliable arm of the regime."⁷³ The Syrian regime, while highly militarized, should not be mistaken for a military regime. Rather, the Ba'ath party under Hafiz al-Assad set up an authoritarian regime in which the security apparatus does enjoy a significant amount of agency in all things that concern the regime's security, including its own privileged place in the economy. Bashar al-Assad, upon his ascension to the presidency, would learn quickly that the seemingly insurmountable force represented by the security apparatus was both the crux of his power, and his greatest opponent to vital and sustainable economic growth.

C. SYRIA UNDER BASHAR AL-ASSAD

Bashar al-Assad, Hafiz al-Assad's second-oldest son, was never supposed to rule Syria. While Syria is officially a republic, Hafiz's oldest son, Basil, was being groomed

⁷² Perthes, *The Political Economy of Syria Under Assad*, 147.

⁷³ *Ibid.*, 150.

to assume the mantle of the House of Assad and the presidency until his untimely death in a car accident in 1994.⁷⁴ Basil was a military figure, revered within the regime, whereas Bashar was a Western-educated ophthalmologist living in London at the time of his brother's death with no real prospects of one day ruling the country. Bashar's education and manner, more so than his pedigree, is what made him so endearing to Syrians who, six short years later, would refer to Bashar as "The Hope"⁷⁵ as he ascended to the presidency with little opposition or in-fighting after his father's death in 2000. While the Syrian people (largely kept out of any real political participation in the country) and Western leaders lauded the ascension of Bashar al-Assad to the presidency as a harbinger of liberalization and democratic change, the Ba'athist regime seemed to follow suit. Like a well-oiled machine, Bashar went from being the son of Hafiz al-Assad with no real role in the party or the military to being promoted to Lieutenant General and Supreme Commander of the Armed Forces the day after his father's death.⁷⁶ Within weeks, he was elected Secretary General of the Ba'ath Party, and the Syrian Parliament also amended their constitutionally set age requirement from 40 to 34 so as to accommodate Bashar's age.⁷⁷ And by July 17, 2000 Bashar al-Assad was taking the constitutional oath of office and delivering his presidential inauguration speech in Damascus after receiving 97.2% of the vote in a national referendum. The Ba'athist regime in Syria seemed to remain intact, even without its strong man. The inaugural speech itself was enlightening, and certainly not in keeping with the traditionally held views of the Syria held by many Westerners, nor did it toe the traditional Ba'athist party lines. Indeed, Bashar criticized some elements of the previous regime and emphasized that economic reform was his main priority, and that state bureaucracy had become a major obstacle.⁷⁸ Bashar and those he brought into the folds of his new government were set to the task of modernizing Syria, revamping bloated bureaucracy, and liberalizing the

⁷⁴ Lesch, *Syria: The Fall of the House of Assad*, 1.

⁷⁵ Ibid., 2.

⁷⁶ Van Dam, *Struggle for Power in Syria*, 132.

⁷⁷ Lesch, *Syria: The Fall of the House of Assad*, 5.

⁷⁸ "President Bashar al-Assad: Inaugural Address," *Al-Bab*, June 18, 2009, www.al-bab.com/arab/countries/syria/bashar00a.htm.

economy. They were not, as many hoped at the time, there to reform the political landscape. Utopian hopes for wide-sweeping Western-style democratic reform were not going to be met. While the new president did speak of a “democracy specific to Syria” he believed that there were more pressing institutional reforms needed and that the Syrian people were overwhelmingly not ready for democracy yet.⁷⁹

1. Inherited Authoritarianism

What Bashar inherited from his father in July 2000 was an authoritarian state in an overwhelmingly precarious situation due to corruption, sectarian violence stemming from a lack of political participation, and a stagnant economy. While precarious, the Syrian state was not different from other authoritarian regimes in the Middle East—other *mukhabarat states*—and what Bashar saw as an initial prescription for the country's ills was to begin to normalize its relations with the global community as a whole. The inherited authoritarian state had other ills that would prove to be a much tougher prognosis, and directly inhibit the desperately needed economic growth:

- Small, fragmented private sector incapable of accumulating capital
- Lack of regulatory regime
- Judiciary tied to the regime
- No stock market
- Restricted banking system
- Vibrant black market
- Excess of small-scale enterprises in non-productive sectors (i.e., commerce vs. manufacturing)
- Significant brain drain of those Syrians that leave the country for higher education
- Large agricultural sector
- Unsustainable and volatile, semi-rentier system

⁷⁹ “President Bashar al-Assad: Inaugural Address.”

When laid out, it seems only natural that Bashar al-Assad would focus on economic liberalization as a way to cure the ills from the authoritarian regime he inherited, but this liberalization was not to be undertaken for the sake of democratization. Rather, these reforms were under the guise of reinforcing the resiliency of the Ba’athist regime he now led in what some have referred to as “recombinant authoritarianism.”⁸⁰ To achieve this, Bashar had inherited a strong security state from his father, a point that should not be overlooked. Under Hafiz, the regime was able to consolidate both society and its own apparatus’s firmly under the government’s control.⁸¹ Regime stability—facilitated at times by brutal oppression—had been the key to achieving marked change in the Syrian Republic to that point.

2. Promises of Change

Bashar al-Assad, unlike his father, sought to focus his efforts on domestic challenges, and his reformist agenda reflected a need to revamp domestic policy and structures. Of his policy changes, some, such as removing the ban on importing satellite receivers, were viewed as moving toward political openness and colored as a nod toward democratization.⁸² Similarly, the first year of his presidency allowed for an opening in the press that had not existed in Syria since the Ba’athist takeover, during which Syrian intellectuals used this opportunity to plea for further political freedoms, removal of martial law, and release of political prisoners. This period, known as the “Damascus Spring” saw a precipitous growth of civil society organizations and protest that caught the newly-minted president and some of the more junior members of the regime off guard.⁸³ While the literature on the opening and subsequent reversal of some of the political and social reforms allowed during the Damascus Spring are significant from a social movement standpoint, a full analysis of this time is beyond the scope of this work.

⁸⁰ Reinoud Leenders “Authoritarian Governance in Syria and Iran,” in *Middle East Authoritarianisms: Governance, Contestation, and Regime Resilience in Syria and Iran*, (Redwood City, CA, Stanford University Press, 2003), 9.

⁸¹ Perthes, *The Political Economy of Syria Under Assad*, 262.

⁸² Volker Perthes, *Syria Under Bashar al-Asad: Modernisation and the Limits of Change*, (London: Oxford University Press, 2004), 13.

⁸³ Lesch, *Syria: The Fall of the House of Assad*, 9.

Suffice it to say that the new president learned quickly that the opening up of society while trying to also institute administrative, economic, and monetary reform would be counterproductive for the regime. Aside from allowing for strongly-controlled pluralization in the form of independent, non-Ba'ath parties that did not present any real contestation to the regime, little has been promised or achieved in the realm of political change. Political organization, and with it, civil society remains low. This is, however, a divergence from the Ba'ath party under Hafiz al-Assad's rule wherein any opposition to the regime was considered an enemy of the state. This new authoritarian pluralism severely restricted actual participation in elections.

For Bashar, significant economic growth could never be achieved without administrative reform in the country. As promised in his inaugural speech, Bashar and the new members of the regime set to fixing the over-centralization of the state, which proved to be a turning point in within his regime's own political structure. The "old guard," or rather those older high-ranking members that remained in the regime appointed by Hafiz, would see the capacity of the Ba'athist regime reduced.⁸⁴ Patronage would no longer be relatively as important as state institutions. What was set in motion by administrative reform in Syria was a process wherein the younger members appointed by Bashar al-Assad would be able to exploit economic liberalization through dismantling the networks set up to benefit those members of the old guard that were most loyal to the Ba'athist regime.⁸⁵ Or, as Donati argues, "Hafiz al- Assad's generation got rich through the state sector, while Bashar al-Asad's network of supporters monopolized the private sector and prospered."⁸⁶ While a complete dismantling of state-based cronyism was not implicitly promised by Bashar, the shift from state-based to market-based modes of rent-seeking was on the new president's agenda from the outset.

⁸⁴ Perthes, *Syria Under Bashar al-Asad*, 26.

⁸⁵ Leenders, "Authoritarian Governance in Syria and Iran," 10.

⁸⁶ *Ibid.*, 12.

D. ECONOMIC REFORMS UNDER BASHAR AL-ASSAD

Bashar al-Assad and his new cohorts saw economic governance as the key to reinforcing the sustainability of Ba'athist authoritarian rule. The regime branded this shift in economic governance and the reforms associated with it as the “social market economy” in an attempt to capture what was meant by the President Assad’s calls for “modernization.”⁸⁷ The goal of the “social market economy” was to retain a commitment to the Ba'athist ideas of state-social relations and the institutions that facilitated these while finding ways to make the public sector as a whole function under market-oriented policies and regulatory networks. The goal of improving Syria’s economic performance was a tall order, but the aforementioned rhetoric played well with international financial institutions, and Syria desperately needed foreign direct investment (hereafter, FDI.)

Syria, in the early years of Bashar al-Assad’s presidency, should not be considered a poor country but rather a middle-income, developing country that had misallocated its resources. Significant population growth in the 1980s and 1990s made the stagnant economy even more dire. When Bashar came to power, the percentage of the Syrian population below the age of 20 was around 52%, which put significant strain on the labor market.⁸⁸ Without significant economic growth, Syria would not be able to deal with this youth bulge and crippling unemployment. Time was of the essence, and the Assad regime began the process of structural adjustment and reform to achieve growth through transition to greater market orientation and openness.

1. Structural Adjustment

Shortly after taking office, Bashar al-Assad and his team of technocrats set to work crafting and implementing a series of reforms aimed at transitioning toward a market-economy. A series of laws were passed that were aimed at opening up the Syrian economy, first and foremost, to the global market. This was in keeping with the dominant neoliberal model for economic growth at the time—the Washington Consensus—which promotes short-term economic stabilization and growth by curbing government spending

⁸⁷ Leenders “Authoritarian Governance in Syria and Iran,” 10.

⁸⁸ Ibid., 29.

and subsidies, encouraging exports through currency devaluation, and raising interest rates and prices. Under this neoliberal model, long-term growth is achieved through adherence to structural adjustment plans (SAPs) that liberalize investment and trade, and privatize previously state-held resources and enterprises.⁸⁹ The Syrian economic crisis that Bashar al-Assad inherited was believed by the IMF and the World Bank to have been mostly attributed to the heavy intervention of the government in the state's economy. Policies that privileged exports and private investment were encouraged as the Syrian regime opened up the economy to private capital, both foreign and domestic.

It can be generally stated that the Assad regime, more so out of domestic political necessity than acquiescence, adopted a gradualist approach to economic reform. As Volker Perthes and other scholars have noted, there were really four major economic challenges that needed to be addressed through Assad's modernization policy. The first, as mentioned before, was a need for job creation to address the growing youth bulge. The second was a dependence on oil revenues. Though Syria had become an oil exporter in the mid-1980s, the some 60–70% of the country's exports and around 12% of its GDP at the time depended on oil rent.⁹⁰ Syria had relied on oil revenues to fund development projects and had not been actively seeking ways to counterbalance this as oil prices have declined and the country's resources depleted. The third major challenge was to overcome statism and encourage private capital. This transition from public sector domination over all of the state's essential industries was daunting as the public sector at the time employed around 75% of the workforce.⁹¹ The fourth challenge facing the state that was all too often overlooked was the need to maintain social stability. The effects of these modernizing economic reforms at the micro level as they relate to social stability will be examined in greater detail in the following chapter. To address the first three challenges—job creation, diversification of revenues, encourage private investment—Bashar al-Assad and the like-minded modernizers in his regime chose to focus their

⁸⁹ Pfeifer and Posusney, *Arab Economies and Globalization*, 35.

⁹⁰ Perthes, *Syria Under Bashar al-Asad*, 29.

⁹¹ *Ibid.*, 30.

attention on developing three main sectors of the economy: finance, trade, and agriculture.

2. Financial Sector Reforms

The main goal of al-Assad's social market economy was economic growth, and the regime hoped to achieve this growth through instituting economic policies that facilitate capital flow and employment opportunities. Bashar and his reformers sought to achieve this first through addressing issues in the financial sectors that dissuaded foreign investment in Syria. In 2001, the Assad regime promulgated a banking law (Decree 28) that permitted the establishment of private banks, and also opened banking up to private citizens and non-citizens.⁹² Syria had not allowed private banks since the 1963 coup that brought the Ba'ath regime together, which made the actual establishment of private banks more challenging. The licensing process and the creation of the institutional framework was harder than many in the regime expected, but banks were established and foreign capital was allowed to hold up to 49% of the stocks. While the regime did find it difficult to find Syrian nationals willing and/or able to invest the 51% of capital needed, the domestic investment would eventually come. By 2009, the Assad regime would enact further banking reforms in the private sector and would allow foreign ownership of private Syrian banks up to 60% of shares.⁹³ While a significant increase in the share of private sector banking in Syria was seen, the types of private sector banking was limited to regional brokers and Arab investors. Overwhelmingly, the international banks chose to uphold the U.S. sanctions that were imposed on Syria during the time and did not invest.

In conjunction with the approval of private banks, the Assad regime reorganized Syria's central bank, and created the Credit and Monetary Council (CMC) in 2002 whose role was to craft and manage monetary policy. This signaled a significant shift away from the austerity measure that was imposed in the 1990s to reduce the deficit. Bashar al-Assad and his modernizers chose to reinvest in public infrastructure projects (particularly targeting financial centers of trade) as well as education.

⁹² Perthes, *Syria Under Bashar al-Asad*, 38.

⁹³ Abboud, "The 'Social' in the Social Market Economy," 57.

3. Manufacturing/Trade Sector Reforms

In keeping with statist economic tradition, the central planning that occurred in the Syrian Arab Republic under the Ba'athists severely stunted the growth of domestic production capabilities as well as the competitiveness of the domestic market. There existed an anxiety among many in the Syrian business class or bourgeoisie (overwhelmingly Sunni) that eliminating trade barriers and liberalization could drive domestic businesses to bankruptcy.⁹⁴ The Assad regime fought these protests and pushed for liberalization seeing this as the best path to drive competitiveness amongst Syrian business, therefore leading toward more efficient industries that had the ability to export.

To drive trade liberalization the Assad regime eased the export tax excised on Syrians while also drastically cutting the customs duties on import restrictions for local manufacturing firms.⁹⁵ Archaic laws that had previously made the possession of and trading in foreign currency punishable by law were revoked and the previously set limits on foreign currency transactions were also eased. While these measures were, all aimed to enhance Syria's ability to participate in a meaningful way in the global economy, they also emphasized the need for the Syrian people to take a vested interest in their role in the success of the reforms. The totality of the economic reforms rolled out by the Assad regime were underpinned by rhetoric that allowed Syrians more economic choices, but this also necessitated they play a bigger role in the economy's success. What this implicitly entailed was that the drive toward more economic freedom and consumerism amongst Syrians would be matched by a roll back in the social provisions and social welfare structures of the Syrian state. This included subsidies that previously existed on staple foods as well as gas and energy sources. This roll back of social resources occurred at a rate that was much faster than the private sector growth that was intended to provide an increase in pay and other provisions that could match more costly standards of living.

⁹⁴ Abboud, "The 'Social' in the Social Market Economy," 59.

⁹⁵ Perthes, *Syria Under Bashar al-Asad*, 38.

During this period of economic reform, the Syrian oil sector became another casualty. While Syrian oil exportation levels did not come close to reaching anywhere near those of the Gulf States, the oil industry in Syria went from being an oil exporter to an oil importer during this time. Overwhelmingly, the oil sector deteriorated due to lack of investment in the manufacturing sector combined with falling production rates.⁹⁶ After peaking around 1995, the production of Syrian crude oil slowed steadily with a decline in output levels from more mature fields.⁹⁷ The Assad regime recognized the need for exploration of new fields and recovery work in the mature oil fields to stabilize output, which could only be achieved through foreign capital and technology. The Syrian regime opened bids in 2001 for oil and natural gas exploration rights, which signaled an acceptance of the need for change.⁹⁸ The Assad regime, through the state-owned Syrian Petroleum Company (SPC), would launch other rounds of production sharing exploration licenses prior to the start of the civil war with moderate success early in the decade. Namely, a 25-year production agreement was signed in 2004 between the SPC and China National Petroleum Corporation (CNPC) to develop oil fields in Northeastern Syria, and in 2005 another 25-year production was signed with Russia's Soyuzneftegaz.⁹⁹ Overwhelmingly though foreign companies, particularly in the West, have shown a reluctance to invest in Syria in light of civil unrest. This, combined with an extension of EU sanctions that included a ban on oil imports from Syria in early 2011 in retaliation to the regime's crackdown on opposition protests, has left the oil sector unable to meet its own domestic energy consumption needs, much less in a position to profit from crude oil and natural gas exports.

4. Agricultural Sector Reforms

The transition to the social market economy included a dismantling of the structure that had long supported the agricultural sector in Syria and the rural populations

⁹⁶ Richard German and Elizabeth Taylor, "Syria: Economy," *Europa World Online*, November 2016, <http://www.europaworld.com/entry/sy.ec>, 5.

⁹⁷ Ibid.

⁹⁸ German and Taylor, "Syria: Economy," 4.

⁹⁹ Ibid., 5.

that worked the sector. As part of an overall transition by the Assad regime away from the agricultural sector toward other non-agricultural sectors that were thought would generate more capital, the subsidies on agricultural inputs (e.g., seeds, fertilizers, oil) were removed. These adjustments were combined with a reduction in state support in the form of social welfare to rural communities and placed considerable strain on those Syrians that traditionally worked in the agricultural sector.¹⁰⁰

Implemented in 2004, Law 56 initiated changes in structure of land tenure in the hopes that through giving landowners the ability to terminate tenants' contracts and expel peasants from land might foster investment within the agricultural sector.¹⁰¹ The provisions of the law were convoluted, allowed for rampant speculation of land, and forced thousands of peasants off their lands—one of the largest internal displacements in the Middle East in recent years, not including the impending Syrian Civil War.¹⁰² Combined with the lack of government provision of subsidies on agricultural inputs was a new law, introduced in 2005, that forbade drilling of new wells due to groundwater depletion, but was not effectively enforced. An overuse of groundwater reserves occurred, leading to crop failure and a sharp rise in animal mortality that forced over 300,000 rural Syrians from their land.¹⁰³ The neglect of rural communities, mostly in the Northeastern provinces, combined with a decline in agriculture's ability to contribute to the Syrian GDP. If matters could not get worse for the rural Syrians living in the Northeastern provinces, a major drought plagued the country from 2006–2009 leading many rural workers to migrate to major Syrian cities looking for work. As a result of both the drought and the groundwater depletion, the Assad regime did accelerate land reclamation and irrigation for the land owners that benefited from the recent land distribution programs, yet the work was slow and an overwhelming amount of the Syrian populace formerly or presently employed by the agricultural sector was still in protest

¹⁰⁰ Abboud, "The 'Social' in the Social Market Economy," 59.

¹⁰¹ Myriam Ababsa, "The End of the World: Drought and Agrarian Transformation in Northeast Syria (2007–2010)," in *Syria From Reform to Revolt: Vol. I: Political Economy and International Relation*, ed. Raymond Hinnebusch and Tina Zintl (Syracuse, NY: Syracuse University Press, 2015), 211.

¹⁰² United Nations Office for the Coordination of Humanitarian Affairs, *OCHA Annual Report 2010*, (New York: OCHA, 2010), 45.

¹⁰³ Ababsa, "The End of the World," 199.

over the state farm distribution policies, and these areas are traditionally worked by minority groups within Syria loyal to the regime.

While the private sector may have grown during this period (2000-2010) due to the both financial and trade sector reforms, this growth was not on pace to gainfully employ the re-distribution of rural workers that were now coming to the major cities looking for work.

E. MACROECONOMIC CONSEQUENCES OF REFORM

Per Article IV of the IMF's articles of Agreement, the IMF is to hold bilateral discussions with members of the Syrian Arab Republic, and will annually produce a consultation that gives a detailed overview of a country's overall economic health and vitality. The last consultation completed for Syria was in the Spring of 2010. What is interesting about the report is the overall strengthening of Syria's economic performance detailed in the report's outlook. The macroeconomic picture painted of the Syrian Arab Republic details that the agricultural sector is likely to continue to recover from the severe drought, and therefore overall growth is expected at about 5% for the coming year, with the fiscal deficit expected to narrow by one percentage point of GDP.¹⁰⁴ The report praises moderation in both domestic and public consumption, with no further mention of the drought, population displacement within the country, or the still slow growth rate of employment in the industrial/ private sector. An emphasis on further subsidy reform is also prevalent throughout the report, specifically urging the state to continue to cut agricultural subsidies.

Other IMF country reports since Bashar al-Assad came to power in 2000 are similar in tone throughout the decade, and championed three main elements of the Syrian economy: overall GDP growth, reduction in public sector spending/subsidies, and structural adjustments made to the financial sector. As shown in Figure 1.

¹⁰⁴ International Monetary Fund, Syrian Arab Republic: 2009 Article IV Consultation—Staff Report; and Public Information Notice, March 2010.

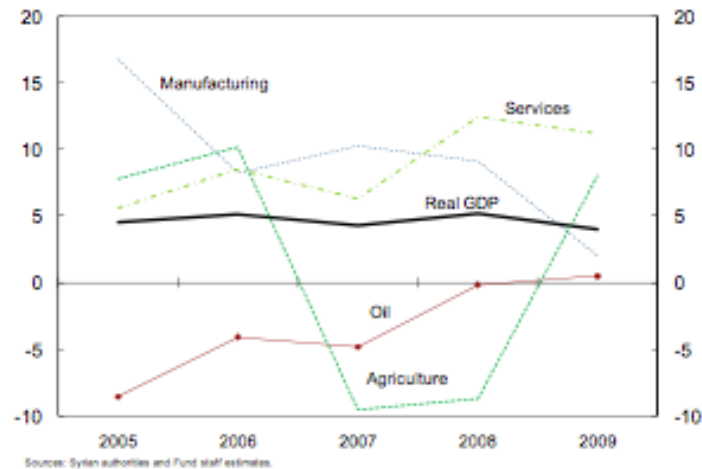


Figure 1. IMF Rendering of Syrian Sectoral and GDP Growth Rates¹⁰⁵

While the IMF painted a largely positive picture of the Syrian political economy, other reports, particularly from the World Bank showed a more clear-eyed picture of a state devolving in to civil turmoil. As shown in Figure 2, the Assad regime’s ability to govern was deteriorating. Similarly, to Fukuyama, the World Bank uses the term “governance” as a starting point to describe “a government’s ability to make and enforce rules, and to deliver services.”¹⁰⁶ The definition focuses on the execution of policies rather than on the quality of the policies a regime is attempting to reform. In the case of Syria, the capacity of the government to formulate and then effectively implement economic reform was lacking. Passing legislation was not enough if the regime did not have the institutional capacity to deliver on the promise of change and economic growth. As shown below, another side to the governance piece for the regime was a perceived lessening of adherence to rules or procedural measures, which painted an accurate picture of a country transitioning from statism to a form of crony capitalism.

¹⁰⁵ International Monetary Fund, Syrian Arab Republic: 2009 Article IV Consultation—Staff Report; and Public Information Notice, March 2010.

¹⁰⁶ Francis Fukuyama, “What is Governance?,” Center for Global Development: Working Paper 314: (2013), https://www.cgdev.org/sites/default/files/1426906_file_Fukuyama_What_Is_Governance.pdf.

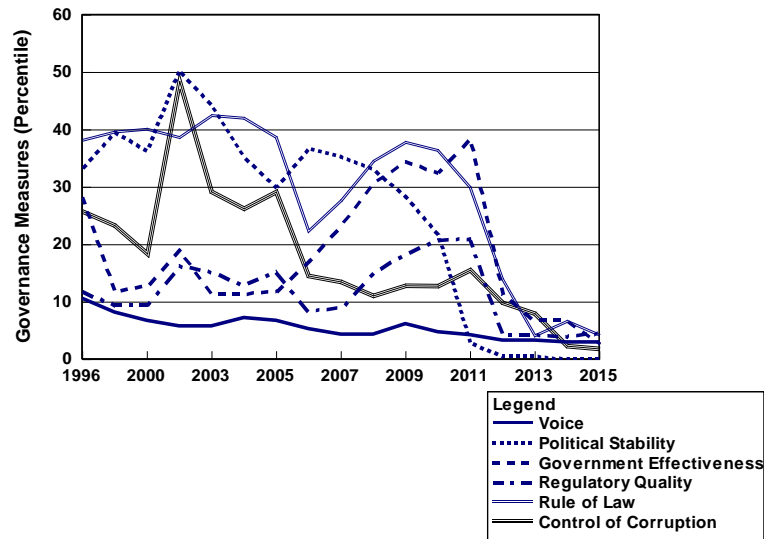


Figure 2. Governance Measurement in Syria from 1996–2015.¹⁰⁷

The relative success of economic reforms lies in the ability of the system to take shocks. In the case of Syria, while the macroeconomic picture painted by the IMF and other championing neoliberal economic reform, the roll back of the state, particularly its ability to employ and provide safety nets for its citizens, was sending the country down the path of civil unrest. This made the actualization of economic reform projects nearly impossible to achieve, and discouraged the much-needed Western investment so that these economic reforms could become a reality.

¹⁰⁷ Daniel Kaufman, Aart Kraay, and Massimo Mastruzzi, “The Worldwide Governance Indicators: Methodology and Analytical Issues,” *World Bank Policy Research Working Paper*, no. 5430 (2010), <https://ssrn.com/abstract=1682130>; Worldwide Governance Indicators. The World Bank Group, last accessed May 30, 2017, <http://info.worldbank.org/governance/wgi/index.aspx#home>.

III. SYRIAN MICROECONOMICS UNDER BASHAR AL-ASSAD

A. SYRIAN STATE AFTER LIBERALIZATION

Implementing economic liberalization policies in Syria did not produce the expected growth results as evidenced by the civil war raging currently through the country. While the state is committed to major economic reform, there must be appropriate social safety nets in place to compensate and protect citizens that are adversely affected by the expected or unexpected shifts in the economy until the economic opportunities exist to reinvest this human capital. A majority of the Arab countries that enacted neoliberal economic reforms in the 1990s did so by cutting government spending, particularly to social services, which has caused a great deal of societal unrest, and are de-stabilizing to these states. Syria, though a relative late-comer to economic reform, followed this same, prescriptive neoliberal economic reforms under Bashar al-Assad wherein cutting to government spending was a primary focus as shown in the previous chapter. These cuts to government spending, and, in particular, social services, would prove dire in the Syrian Arab Republic under Bashar because of the additional strain placed on his regime and the Syrian people at large due to drought that followed these reforms. This drought put Syria in extremis and state response was needed; however, the Syrian state was both unwilling and unable to respond because of the economic liberalization policies enacted by the regime.

As will be shown in this chapter, the statewide emergency caused by the drought showed the Syrian people that the Assad regime was unable to handle the crisis. Three key destabilizing factors shaped the lack of state response to this crisis. First, neoliberal economic reforms removed social safety nets. These reforms cut social services which ignited tensions particularly in overcrowded Syrian cities that were already stretched thin by the influx of Iraqi refugees after the U.S. invasion in 2003 and the migration of rural workers affected by economic reforms and drought. Second, the Syrian agricultural sector that employed the significant portion of the Syrians, rivaled only by public sector employment, saw a drastic change under structural adjustment policies. And, finally, liberalization allowed for crony capitalism to emerge that caused a discordance in the

economic power structure through changing the key beneficiaries in the economy from the old Ba’athist guard to new business, crony-capitalists led by the Alawite elites. This shift in the elite identity within a short time period led to lack of accountability in the state; with the result that the state was unable to respond to the pending crisis.

B. DROUGHT

The match that eventually set fire to the various disparities of economic reform was lit in the northern and eastern Syrian provinces in 2006 when a severe drought engulfed the greater Fertile Crescent.¹⁰⁸ The areas affected most severely by the drought included Al-Hasakah, Al-Raqqah, and Dier ez-Zor governorates, as shown in Figure 3.

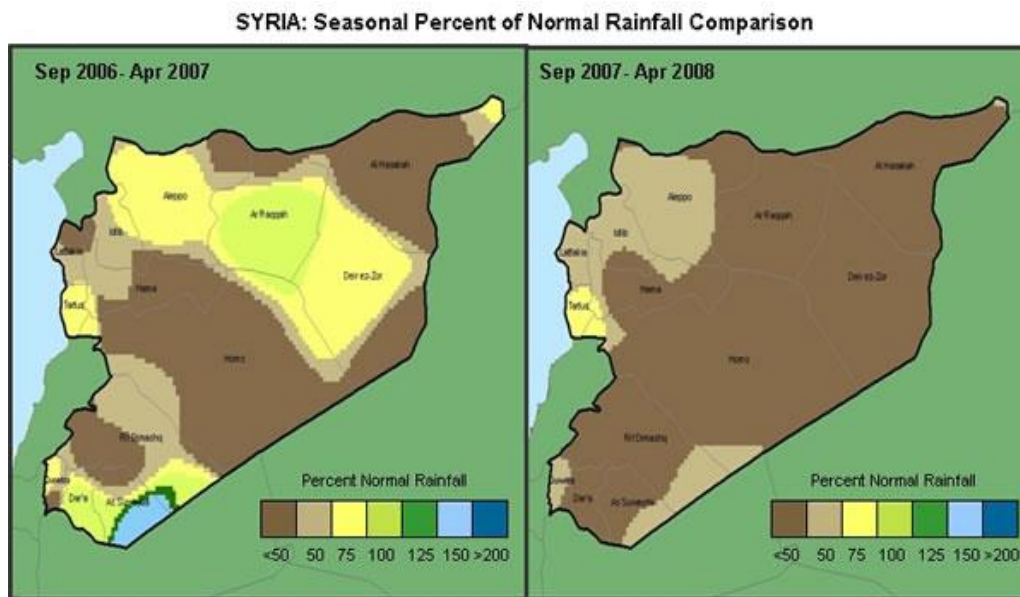


Figure 3. Syrian Rainfall Comparison against Normal Percentages¹⁰⁹

¹⁰⁸ Collin Pelley, Shahrzad Mohtadi, Mark A. Cane, Richard Seager, Yochanan Kushnir, “Climate Change in the Fertile Crescent and the Implications of the Recent Syrian Drought,” PNAS 112 (2015) 3241–3246, DOI: 10.1073/pnas.1421533112.

¹⁰⁹ United States Department of Agriculture, Foreign Agricultural Service, *Commodity Intelligence Report on Syria: Wheat Production Declines in 2008/09 Owing to Season-Long Drought*, (Washington, D.C.: USDA, 2008). https://www.pecad.fas.usda.gov/highlights/2008/05/Syria_may2008.htm.

For Syria, already suffering due to poor governance, unsustainable agricultural policies, and virtually non-existent environmental legislation, the drought served as a catalyst of destabilization. While some have argued that climate change caused the Arab Spring, this thesis does not espouse that correlation equals causation. In addition, while climate change may be a cause of the drought, the lack of state response needs to be explained as well. Rather, that climate change—in this instance in the form of a severe drought—served as a “threat multiplier” by compounding stress in the country from economic liberalization.¹¹⁰ These environmental conditions proved devastating for wheat production, which accounted for 83% of the country’s grain production.¹¹¹ As illustrated in the Figure 4, over 75% of the country’s wheat production occurs in the northeastern “breadbasket,” which was an area in the country most affected by the drought.

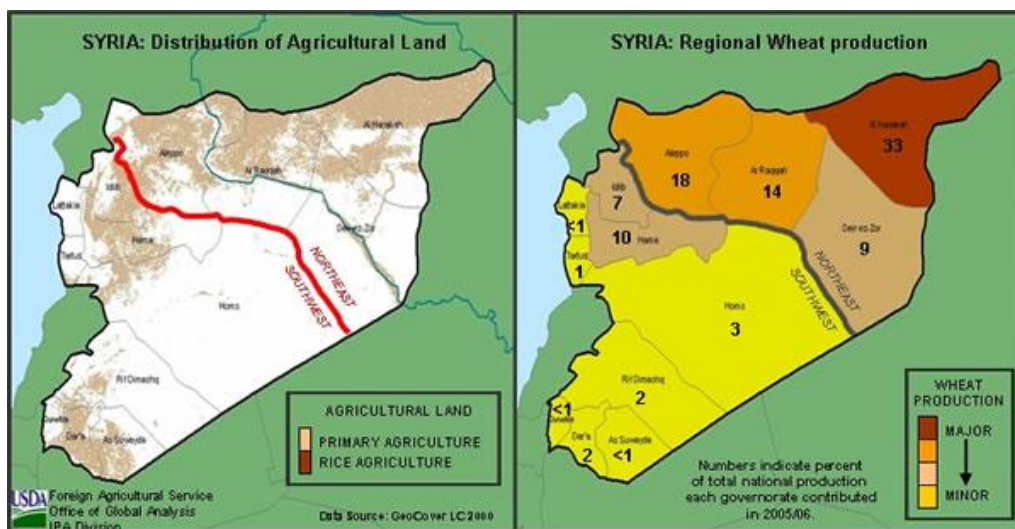


Figure 4. Distribution of Agricultural Land vs. Wheat Producing Land in Syria ¹¹²

Rainfall deficiency during the drought affected more than just the sustainability of wheat crops. During the drought, rainfall in eastern Syria had declined to 30% of the

¹¹⁰ Caitlin E. Werell, Francesco Femia, ed., “Global Warming and the The Arab Spring,” in *The Arab Spring and Climate: A Climate and Security Correlations Series*, The Center for Climate and Security (2013), 20.

¹¹¹ United States Department of Agriculture, *Commodity Intelligence Report on Syria*.

¹¹² Ibid.

annual average by 2008, and al-Khabour, a main tributary of the River Euphrates, dried up completely.¹¹³ As shown in Figure 5, the overall moisture deficiency in Northeastern Syria extremely reduced vegetation, which had serious ramifications for the feed grain and domestic food market. This overall decline in vegetation incited the need for imports of not just domestic food stuff, but also grain for livestock.

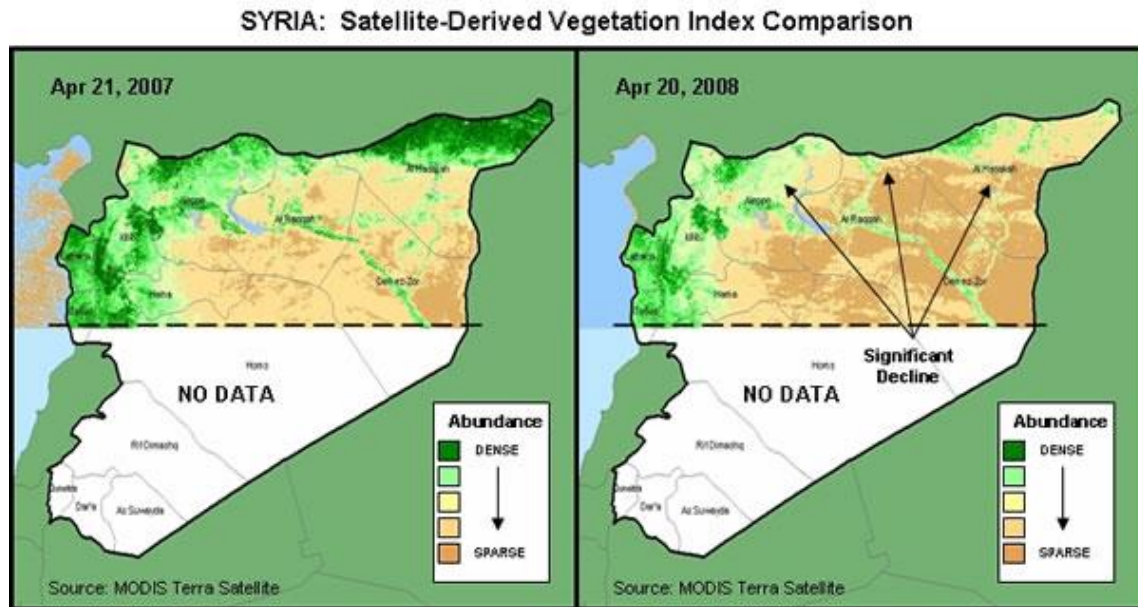


Figure 5. Decline in Vegetation Index in Syria from 2007–2008¹¹⁴

Figures 3–5, from the USDA’s Foreign Agricultural Service in 2008, accurately depicted and predicted the devastation the drought had on Syria, and the need for outside aid. With a rapidly increasing population, the Syrian government was unable to meet domestic consumption needs, which was compounded by the already high demand for water and other crucial natural resources.¹¹⁵

¹¹³ Khaled Yacoub Oweis, “Eastern Syria Grapples with Drought, Poverty,” *Reuters*, January 27, 2010, <http://www.reuters.com/article/us-syria-drought-idUSTRE60Q5FW20100127>.

¹¹⁴ United States Department of Agriculture, *Commodity Intelligence Report on Syria*.

¹¹⁵ Wadid Erian, “Drought Vulnerability in the Arab Region: Special Case Study: Syria,” in *Global Assessment Report of Disaster Risk Reduction (GAR)*, United Nations ISDR (2011), 15.

During its course from 2006–2011, the drought caused nearly 75% of agricultural households to suffer total crop loss, and the depleted vegetation in the area would further compel many rural families to sell livestock well below cost after feed reserves were exhausted.¹¹⁶ Syria’s estimated livestock today is somewhere around 14 million, whereas before the drought the numbers stood around 21 million, reflecting millions that perished as a result of the drought.

C. EFFECTS TO AGRICULTURAL SECTOR THROUGH SA

The human and economic cost of the drought on the agricultural sector in Syria cannot be overstated. A United Nations report released in 2011 stated that “more than 800,000 Syrians lost their entire livelihood as a result of the drought.”¹¹⁷ As described in the previous chapter, economic liberalization policies affected the agricultural sector to a disproportionately more than the other sectors of the economy since Bashar al-Assad came to power; these reforms, combined with the drought, devastated Syrian agricultural communities. Until the drought, the agricultural sector employed around 40% of Syria’s workforce and accounted for 25% of the country’s gross domestic product.¹¹⁸ Water mismanagement, lack of bureaucracy in rural areas, and the removal of essential subsidies were among the policies instituted by the Assad regime that directly affected the vitality of the agricultural sector. The drought, as will be shown below, highlighted the underlying destabilization caused by these neoliberal economic policies.

Water mismanagement and poor governance plagued Syria well before Bashar al-Assad came to power. Decades of criminal mismanagement and disregard for oversight of the country’s natural resources significantly contributed to both water shortages and desertification of agricultural lands.¹¹⁹ For decades the Ba’athist government encouraged inefficient irrigation techniques and heavily subsidized both water-intensive wheat and

¹¹⁶ United States Department of Agriculture, *Commodity Intelligence Report on Syria*.

¹¹⁷ Erian, “Drought Vulnerability in the Arab Region,” 5.

¹¹⁸ “Over a Million People Affected by Drought,” IRIN, February 17, 2010, <http://www.irinnews.org/report/88139/syria-over-million-people-affected-drought>.

¹¹⁹ Femia, Francesco and Caitlin Werrell, “Climate Change Before and After the Arab Awakening: The Cases of Syria and Libya,” in *The Arab Spring and Climate Change: A Climate and Security Correlations Series*, Center for American Progress, February 2013, 26.

cotton farming, all of which served to further deplete already-scarce water resources.¹²⁰ Similarly, to other countries in the Middle East, water policy is an afterthought, and the real driver of policy is a supply-side approach to the issue wherein the drive to expand irrigated agricultural area was to increase output in the sector.¹²¹ The natural limits of the resources in Syria are not the primary driver of policy, and a lack of long-term strategies have specifically devastated the Northeastern parts of the country. To combat the dwindling water resources and meet the unrealistic agricultural targets from the state, farmers have turned to the country's groundwater, and Syria's own National Agricultural Policy Center reported an increase in the number of groundwater wells from around 135,000 in 1999 to more than 213,000 in 2007.¹²² This dependence on groundwater not only further depleted water levels throughout the rural area to dangerously low levels, it also raised concerns about the water quality.

Upon coming to power in 2000, Bashar al-Assad encouraged reform in the agricultural sector to address deficiencies. Bashar's rhetoric, which aimed to increase efficiency through modernizing irrigation techniques and agricultural technology, also included the abolishment of subsidies to the sector. This process of modernization in agricultural sector as Syria transitioned to an open market economy was going to prove difficult at the outset because many of the farmers were not able to afford to invest in modern tools and the irrigation infrastructure. A job that the state had failed to do for decades. Inefficient irrigation systems remained in place as loans were scarce for the farmers, and the regime chose to combine a push to reform the sector at the same time that it chose to roll state subsidies back.¹²³ Of the subsidies the Assad regime rolled back

¹²⁰ Michael Shank and Emily Wirzba, "How Climate Change Sparked the Crisis in Syrian: A Lack of Water and a Weak Western Response Helped Ignite Syria's Chaos," *U.S. News & World Report*, September 13, 2013, <https://www.usnews.com/opinion/blogs/world-report/2013/09/13/syrias-crisis-was-sparked-by-global-warming-and-drought>.

¹²¹ Francesca De Chatel, "The Role of Drought and Climate Change in the Syrian Uprising: Untangling the Triggers of the Revolution," *Middle Eastern Studies*, 50:4, (2014) DOI: 10.1080/00263206.2013.850076, 529.

¹²² Femia and Werrell, "Climate Change Before and After the Arab Awakening," 26.

¹²³ Suzanne Saleeby, "Sowing the seeds of dissent: Economic grievances and the Syrian social contract's unraveling," *Jadaliyya*, February 2012, http://www.jadaliyya.com/pages/index/4383/sowing-the-seeds-of-dissent_economic-grievances-an.

to the agricultural sector, the one that affected irrigation availability the most was the removal of heavily subsidized diesel, which is used for pumping water and transporting crops to market. Official reports from 2008 (in the middle of the drought) noted that the Syrian government raised the domestic rate of diesel for agricultural purposes by a factor of 300–500%, from 7.0 Syrian pounds per liter to 25–35 Syrian pounds per liter.¹²⁴ These subsidies roll backs to both diesel fuel and fertilizer, instituted under the premise of finding ways to reduce government debt, are in keeping with an official narrative held by the Assad regime which portrays Syria as a water-stressed state due mainly to external factors that are mostly beyond government control.¹²⁵ The regime announced its commitment to “modernization” in the sector which creates a façade for the people that the regime will make appropriate investment in water resource management. This official regime narrative is not a reality for Syrians dependent on the sector, a reality that was often misrepresented or flat out ignored by those working in the Syrian water sector.¹²⁶ While Bashar called for reform in the agricultural sector as a whole, the overhaul of the government’s water sector—plagued by a bureaucracy characterized as uneducated and ill-equipped to handle water management frameworks—was not undertaken. The burden for the transition toward modernization appeared to rest with those working in the sector rather than those managing it.

In conjunction with cuts to subsidies, the Assad regime enacted two other key areas of economic reform that were aimed toward modernizing the agricultural sector prior to the drought: the 2004 new Agrarian Relations Law, and the 2005 Water Law. Regarding the former, the Agrarian Relations Law was enacted as a way to foster investment in the agricultural sector after the privatization of all of Syrian state lands. To achieve such investments the Assad regime enacted the new agrarian relations law, hereafter Law 56, which enumerated more latitude to landowners, which included the right to terminate tenants’ contracts and expel peasants from the land they had been

¹²⁴United States Department of Agriculture, *Commodity Intelligence Report on Syria*.

¹²⁵De Chatel, “The Role of Drought and Climate Change in the Syrian Uprising,” 529.

¹²⁶De Chatel, “The Role of Drought and Climate Change in the Syrian Uprising,” 529.

working.¹²⁷ While the objective of Law 56 was to achieve a more efficient agricultural sector for the wealth of the nation, what actually occurred was an increase in the speculation of land as wealthy landowners forced rural populations off land so they could then turn around and sell it. An increased exodus from the rural areas to cities ensued with cities ill-equipped to deal with the population influx. Employment in the agricultural sector dropped significantly after the implementation of Law 56, without a significant creation of jobs in other sectors. Law 56 led to much contestation among the disenfranchised rural populations in the northeastern governorates of the country for its preferential treatment toward capitalist, landowners at the expense of the regime's usually loyal, rural support base.

Mere months after Law 56 was implemented, the 2005 Water Law was enacted in a new wave of liberalization legislation this time intended to tackle irrigation issues in the country. The 2005 Water Law outlined various measures intended to improve the protection of water resources, which included the licensing of wells and regulating drilling procedures.¹²⁸ Violation of such laws was supposed to be punishable with fine and prison sentences, but this had little effect. While the Water Law required all wells to be licensed, and for the licenses to be renewed annually to monitor groundwater levels, the managerial capacity and legal framework to enact this was never implemented. Rather, widespread corruption ensued as the local government officials and security personnel working in these rural areas forced farmers to pay bribes for new licenses.¹²⁹ Hate and discontent fomented in rural communities and the aim of groundwater regulation was not achieved.

With no assistance from the Assad regime, the United Nations reported that rural families resorted to more "harmful coping strategies such as reducing their food intake, selling essential assets, and migration" from the agricultural lands of the northeast

¹²⁷ Miriam Abasa, "The End of a World: Drought and Agrarian Transformation in Northeast Syria (2007-2010)" in *Syria From Revolt to Reform, Volume 1: Political Economy and International Relations*, Syracuse University Press, Syracuse: New York (2015), 211.

¹²⁸ De Chatel, "The Role of Drought and Climate Change in the Syrian Uprising, 532.

¹²⁹ Ibid.

affected by the drought.¹³⁰ While organizations such as the World Food Program (WFP) began distributing food rations to 190,000 people in the eastern provinces of Hasakah, Deir ez-Zor, and Raqqa, at least another 110,000 people in the Jezira alone also required emergency food aid, which was not being met.¹³¹ The pattern of poor rainfall continued in parts of the Jezira—particularly in the northeastern governorates of Deir ez-Zor, Hassakeh, and Raqqa—well into the 2008/209 season, even though the rainfall in other parts of the country had recovered by this point.¹³² For those who had not already fled the battered northeast of the country, this lack of rainfall forced southward migration, particularly to the governate of Da’ra which also had an agricultural sector, but also to the outskirts of the major Syrian cities of Aleppo and Damascus. By 2008, officials from the Assad regime finally acknowledged that the drought had raised food prices to the point where the pressure on providing basic food supplies to the population was untenable.¹³³ Syria, by this point, had become a wheat importer for the first time in well over a decade and the humanitarian crisis in the northeastern provinces could no longer be ignored. To this end, the Assad regime, in conjunction with UN agencies, launched two drought appeals—first in September 2008 and again in August of 2009—for help in financing short-, medium-, and long-term aid as well as other development projects for the governorates of Homs, Raqqa, Hassakeh, and Deir al-Zor.¹³⁴ Both the 2008 and the 2009 Syrian Drought Appeals were underfunded, receiving just 20% and 33% of funds requested, respectively.¹³⁵ The Appeal also did not allocate any funding to the governorates in the south such as Da’ra and the outskirts of Damascus, where the rural population had migrated.

¹³⁰ Food and Agriculture Organization of the United Nations, Syria: Drought Appeal 2008, September 29, 2008, <http://www.fao.org/emergencies/appeals/detail/en/c/149352/>.

¹³¹ Erian, “Drought Vulnerability in the Arab Region: Special Case Study: Syria,” 15.

¹³² De Chatel, “The Role of Drought and Climate Change in the Syrian Uprising, 535.

¹³³ IRIN News, “Drought Blamed for Food Scarcity,” 22 Feb 2009.

¹³⁴ De Chatel, “The Role of Drought and Climate Change in the Syrian Uprising,” 526-7.

¹³⁵ United Nations, Office for the Coordination of Humanitarian Affairs, List of Appeals Projects, *Syria Drought Response Plan (Revised) July 2009-June 2010*, (Washington, DC: OCHA, 2010) <http://ft.unocha.org>.

Syrian cities, mainly the larger cities of Damascus, Aleppo, and Homs, had been coping with massive influxes of Iraqi refugees since the U.S. invasion of Iraq in 2003. Neither the Syrian government nor the UNHCR opened camps to accommodate Iraqi refugees; thus the bulk of the refugees settled in the suburbs of major cities, primarily Damascus.¹³⁶ The already stressed and disenfranchised population that was driven from Syria's agricultural sector now had to compete with Iraqi refugees for jobs and scarce resources in the cities. The large-scale deterioration of water availability per capita was a main source of contention in urban areas already suffering from lack of government investment in infrastructure.

Like most developing countries, Syria promoted temporary reception policies toward Iraqi refugees and kept them in a temporary status as a “guest based on touristic visa regulations” while still allowing them free settlement in major cities in the country.¹³⁷ Damascus, a city of just over 4 million, experienced an influx of around two-thirds of the hundreds of thousands of Iraqi refugees who fled after the 2003 invasion.¹³⁸ A majority of the Iraqi refugees living in the neighborhoods surrounding Damascus were urban, better educated than the local population, and well-equipped to work despite the precarious nature of their legal and economic situations. The arrival of the Iraqi refugees drove up rent prices in the city, and many of the rural Syrian migrants who came could not afford to compete in some of the refugee housing networks.

D. SA BENEFITS FOR MANUFACTURING SECTOR AND BUSINESS NETWORKS

Though Syria's manufacturing sector and business networks improved their financial position overall during Bashar al-Assad's first decade in power, clashes between the Ba'ath Party's Old Guard and the Assad Regime's new crony capitalists were a source of destabilization. As discussed in the previous chapter, the statist economic

¹³⁶ Mohamed Kamel Dorai, and Martine Zeuthen, “Iraqi Migrants’ Impact on a City: The Case of Damascus (2006–2011),” *Syria From Reform to Revolt, Volume 1: Political Economy and International Relation*, Raymond Hinnebusch and Tina Zintl. Ed. (Syracuse, NY: Syracuse University Press 2015), 250.

¹³⁷ Dorai and Zeuthen, “Iraqi Migrants’ Impact on a City,” 252.

¹³⁸ *Ibid.*, 254.

model under Hafez al-Assad allowed the regime to maintain heavy control over the economy at large, and specifically over the labor market. This allowed for the development of extensive networks of patronage for the Ba'ath Party leadership. The institution of liberalization policies under Bashar overwhelmingly diminished the Ba'ath Party's role in the economic structure, which was a very unwelcome change for many within the Ba'ath Party's Old Guard who, under Hafez al-Assad, exploited their privileged position in the regime, namely in the manufacturing and business sectors. As crony capitalism emerged with the transition to a market economy, the new business elite showed no interest in sectors of the economy in which they were not engaged. The agricultural sector suffered as a result.

E. CHANGE IN ELITE POWER STRUCTURE

The shift in the balance of power after Bashar al-Assad came to power proved that the schism between political elites and beneficiaries of economic liberalization also encouraged deep societal changes that led to instability.¹³⁹ At a macro level, the economic growth Syria experienced under Bashar disproportionately benefited those who were not already classified as poor. As shown in the figure below, and discussed more in depth in the previous chapter, Syria's GDP in the 2000s showed remarkable annual growth rates between 4.5% and 7% from 2004-2009, and only slowed to 3.2% in 2010.¹⁴⁰

¹³⁹ Khafaji, Isam, "De-Urbanizing the Syrian Revolt," *Arab Reform Initiative*, March 2016, 14.

¹⁴⁰ "Syria GDP Annual Growth Rate," Trading Economics, last accessed May 30, 2017, <http://www.tradingeconomics/Syria/gdp-growth-annual>.

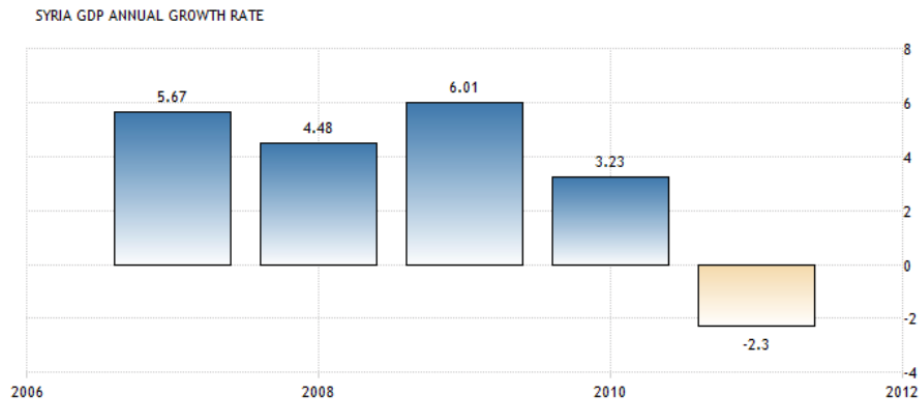


Figure 6. Syria's GDP Growth Rates during the Drought (2006–2011)¹⁴¹

This unprecedented level of economic growth allowed Syria's rich businessmen to get much richer, while the country's poor continued to backslide. This influx of wealth and infrastructure investment was also only felt in particular areas in the state, namely in the areas where the Alawiites were a large constituency.¹⁴² Not only was economic growth disproportionate in Syria, the location of those Syrians classified as living in poverty was also not evenly spread throughout the state—most living at and below the poverty were concentrated in the rural north and east in the county¹⁴³. The widening gap between the rich and the poor was a source of instability, particularly as many of the rural poor migrated to the cities during the drought and could now see first-hand the wealth and opulence that economic change brought to a privileged few.

F. SUNNI BUSINESSMEN AND REGIME MAINTENANCE

Hafez al-Assad was a shrewd politician and, while lambasted by many as nothing more than an authoritarian dictator, he possessed a keen understanding of coalition management. During his tumultuous rise to power and after solidifying his presidency, he carefully managed the power structure of the Syrian state and the Ba'ath regime, paying particular attention to the Sunni leaders he placed in power. He understood that for a

¹⁴¹ "Syria GDP Annual Growth Rate," Trading Economics.

¹⁴² Khafaji, "De-Urbanizing the Syrian Revolt," 5.

¹⁴³ Ibid, 3.

majority Sunni country to be ruled by an Alawiite, strong coalitions must be formed with powerful Sunni leaders that were faithful Ba'ath party members. Those Sunnis who rose to the high levels within the Ba'ath Party under the Assad regime came primarily from the urban notable classes, which also had consolidated a fair amount of administrative power under the Ottoman Empire.¹⁴⁴ These men were also fairly involved in the state-led business sector in the country, and saw the Ba'ath Party as a way to protect this position of power.

Enter Bashar al-Assad in 2000, whose talks of transitioning to a market economy and liberalization policies became a threat to the traditional power structure of the Sunni business leaders and politicians. While Bashar's ascension to power may have seemed to be a smooth transition to those on the outside looking in, his role as president did not carry with it the same commanding authority enjoyed by his father over all of the party faithful. While the Old Guard and the crony capitalists were locked in a stalemate, sectarian and class divisions in Syrian society were amplified by the regime's inability to respond and meet basic social services for the Syrian people, which was, in part, due to political infighting over the implementation over neoliberal economic reforms.

To show the extent of the institutional deadlock that prevented the Ba'athist regime from responding to the drought's impact on the Northeastern parts of the country, Syria's former Minister of the Economy, Abdulla al-Dadari, revealed in interviews that the regime was in an "administrative stalemate between competing interests within the state bureaucracy [which] prevented aid from reaching the population."¹⁴⁵ Dardari further explained that the stalemate rested with the Ba'ath Party Old Guard who did not want to see aid distributed outside of the traditional channels, which undercut the party's power in the local governorates. Bashar's crony capitalist regime and the Ba'ath Party's network used to extract state resources were on a collision course over economic reforms. In 2011, Dardari and his entire cabinet were ultimately dismissed. Dardari's commitment to

¹⁴⁴ Hinnebusch, Raymond and Tina Zintl, "Syrian Uprising and al-Asad's First Decade in Power," in *Syria From Reform to Revolt, Volume 1: Political Economy and International Relation*, Raymond Hinnebusch and Tina Zintl. Ed. Syracuse, New York, Syracuse University Press (2015), 289.

¹⁴⁵ Nazih Richani, "The Political Economy and the Complex Interdependency of the War System in Syria," *Civil Wars*, 18:1 (206) DOI:10.1080/13698249.2016.1144495, 49.

market-oriented policies was, in many ways, as equally damning for the Syrian people as the vast network of Ba'athists extracting rents from state resources. The shift to a market economy did not activate the stagnating rural economy as neoliberal economic policy predicted. Rather the transition toward the market economy cut key subsidies that negatively multiplied the effects of the drought.¹⁴⁶

Aside from the crippling institutional stalemate within the regime, corruption and lack of accountability remained a power disincentive for both local and foreign investors.¹⁴⁷ For Bashar and his new guard in the regime, the gradualist approach that they were forced to take with economic reforms did little to assuage the fears of foreign investors that a return could be made on their capital. Part of this fear stemmed from the slow pace of legislation to match the transition to the market economy. So, while private banks were given licenses to operate in Syria, the country's banking laws and judicial system did not inspire confidence that corruption and mismanagement of funds would actually be prosecuted. Not helping the president's case for further liberalization was the president's cousin, Rami Makhoul, who had (like many other prominent Alawiites) become a business mogul in the country. Makhoul owns SyriaTel (one of only two phone service providers in the country) and has used this position to monopolize other business ventures in the country.¹⁴⁸ So while there are some in the regime that championed this case and show Makhoul as the poster child for a successful transition to the market economy, there are outside actors who saw this monopoly acquisition as dangerous to growth, and make the case that another firm in competition with Makhoul's for a corner of the market would undoubtedly not be protected. For the Old Guard, they see the case of SyriaTel as a lost opportunity wherein they would traditionally receive rent had this corner of the market remained under state control.

¹⁴⁶ Richani, "The Political Economy and the Complex Interdependency of the War System in Syria," 50.

¹⁴⁷ Perthes, *Syria Under Bashar al-Asad*, 37.

¹⁴⁸ Ibid.

G. DA'RA SPARK

Observers of the Arab Spring watched it unfold, and many thought Syria immune to this wave of protest for change and regime change. After all, the regime saw unprecedented economic growth and many outside observers thought this would solidify Bashar al-Assad's rule. The Syrian Arab Republic was different than Egypt and Tunisia, with dissimilar grievances. Not only did the Syrian uprising occur later, they occurred in a different fashion. While Tunis and Cairo rose up first and led the revolution, Damascus and Aleppo did not readily join the protests against Bashar al-Assad, and most certainly did not lead the opposition movement. Rather, the provincial town of Dar'a in Syria's southeast was the epicenter of the uprisings against the Ba'athist regime. Dar'a province has retained its agricultural importance since the Ottoman Empire, and Dar'a city is widely regarded as one of the most important gateways between the Levant and the state of the Arabian Gulf. Dar'a City's position as a major transit point for southbound traffic and also the smuggling of goods between Turkey, Jordan, Syria, and Saudi Arabia lends to the governorate's importance. The area also held a strategically frontline position in the Arab-Israeli conflict as it borders both Jordan, and the Golan Heights. While the province is predominantly Sunni Arab, there are smaller populations of minorities which include Christian, Shia, and Druze, though tribal affiliations dominate fealty in the region.¹⁴⁹ To many observers, this region seemed to be an outlier for protest. Dar'a had a reputation as largely being loyal to the Ba'athist regime, and the agricultural province benefited from land reforms.¹⁵⁰ Its loyalty to the Ba'athist regime was rewarded under Hafiz al-Assad, and many of the high-ranking positions in the regime that were held by Sunnis, were disproportionately held by Dar'awis up until the 1990s. The rural farming town of Dar'a, which once held a privileged position under the Ba'athist regime, became a focal point for protests and was therefore a surprise. Under the neoliberal economic reforms instituted by Bashar al-Assad and the onset of the drought, the governorate now

¹⁴⁹ Nicholas Heras, "A Profile for Syria's Strategic Dar'a Province," *CTC Sentinel*, June 2014, 7:6, 20.

¹⁵⁰ Reinoud Leenders, "Collective Action and Mobilization in Dar'a: An Anatomy of the Onset of Syria's Popular Uprising." *Mobilization: An International Quarterly* 17, no. 4 (2012): 423.

received very little assistance from the regime for their loyalty.¹⁵¹ However, their autonomy, the prize for decades of loyalty for the Ba'athist regime, provided the “opportunity” and “threat” (key elements in social mobilization studies) that prompted mass mobilization in the Spring of 2011.¹⁵²

In March 2011, the population of Dar'a initially took to the streets in protest of the arrest of 15 school-aged children who painted anti-regime graffiti on the walls of their school; however, the demonstrations soon morphed into a larger contestation of government corruption, notably, government purview over groundwater use and well-licensing.¹⁵³ This collective action, some argue, was due as much in response to perceived regime repression as it was to Dar'a's ability to capitalize on their dense social networks.¹⁵⁴ By the time the school boys were released a few weeks later with obvious signs of torture on their bodies, the demonstrations in the city had already reached levels the regime was not equipped to handle. The Assad regime had systematically pulled back security forces from Dar'a and other loyalist areas in the south fearing the potential uprising in other parts of the country where the opposition was stronger such as Damascus, Homs, Hama, or predominately Kurdish areas. Such areas were more likely to be inspired by events in Tunisia and Egypt.¹⁵⁵ By the end of April, the Assad regime had to send snipers, tanks, and regular army units to Dar'a to execute a siege of the city, and repress nearby towns and villages that stood with Dar'awis in solidarity. The siege lasted several weeks before security forces started to pull back from the city, though protests were not completely curtailed, armed clashes with security forces continued for months. Dar'a eventually became one of the epicenters of the Free Syrian Army, and remains outside of control of the Assad regime.¹⁵⁶

¹⁵¹ Leenders, "Collective Action and Mobilization in Dar'a," 421.

¹⁵² Ibid., 420.

¹⁵³ De Chatel, "The Role of Drought and Climate Change in the Syrian Uprising," 525.

¹⁵⁴ Leenders, "Collective Action and Mobilization in Dar'a," 420.

¹⁵⁵ Ibid., 424.

¹⁵⁶ Leenders, "Collective Action and Mobilization in Dar'a," 422.

The collective action and mobilization that took place in Dar'a in the Spring of 2011 was the culmination of a decade of perceived decline in both power and economic position in the regime combined with the development of autonomous business networks for those operating in the governorate. Amidst a decline in favored positions in the Ba'athist regime and economic opportunity, the clan networks provided much needed opportunities for careers and status in business, administration, and cultural positions. This Dar'a family clan structure—made up of seven major “houses”—significantly impacts daily life in the region where the Assad regime does not.¹⁵⁷ The tens of thousands of rural migrants that came down from the battered northeastern provinces of the country were soon indoctrinated in to these dense social networks. These social networks developed around circular labor migration, which was the region's major source of income.¹⁵⁸ Both menial and skilled labor were involved in this circular migration, and the Dar'a region is one of the highest in Syria for dependence on remittances as a portion of household incomes. The Syrian Central Bureau of Statistics estimated in 2007 that Syrian migrant workers brought in more than \$800 million in remittances, whereas many of these transactions are handled in cash payments, and are normally not recorded.¹⁵⁹

The world of circular labor migration is based on trust in the dense social networks of Dar'a. The individuals involved in labor migration must be able to exist in both illegal and semi legal conditions in Jordan and Lebanon, respectively. These illegal activities generated networks in which certain skills, tactics, and resources (i.e. human smuggling, and arms trafficking) were developed autonomously from the state.¹⁶⁰ These networks also provided the social space needed for mobilization and protest- something sorely lacking in other parts of the Syrian state. Dar'awis, though traditional in their adherence to clan values, were overwhelmingly cosmopolitan in their politics. Grievances and nonconformist views on Ba'ath party leadership could be addressed within these social networks and also while the workers lived abroad and had access to other forms of

¹⁵⁷ Leenders, ““Collective Action and Mobilization in Dar'a,” 425.

¹⁵⁸ Ibid.

¹⁵⁹ Ibid.

¹⁶⁰ Ibid., 426.

media. Dar'a social networks allowed for the circulation and interpretation of information released about the Arab Uprisings in Tunisia and Egypt. The Arab uprisings in Tunisia and Egypt served as models for Dar'awis who perceived the Ba'athist regime as corrupt, but also saw that it was no longer providing for the best interests of the Syrian people—even those such as the Dar'awis, who had traditionally been so loyal to the regime.

Dar'a and the surrounding areas did not see the same level of deprivation as was experienced in the northeast of the country which was ravaged by drought and forgotten by the state. Rather, Dar'a experienced a withdrawal of state administration from their areas and a lack of state investment in the governorate while the country transitioned to a market economy. Investment in local infrastructure came from those in Dar'a that had benefited from the social networks that existed around labor migration; however, these tribal leaders no longer experienced upward mobility in the Assad regime that they once enjoyed. The new beneficiaries were ... and they became a new competing elite. These factors, combined with the formation of network opportunities for opposition, made the crackdown of the security apparatus in Dar'a all the more untenable, and the Dar'awis rose in protest as the Ba'ath Party showed that it was unable to accommodate new business associations that provided dissatisfied population with a space and opportunity to aggregate.

H. FIRST LIBERALIZATION, NOW DEMOCRATIZATION?

While the implementation of economic liberalization policies only benefited a small portion of the business class, the Assad regime was able to co-opt the disenfranchised working classes. This appeasement was accomplished by overtly promising job security in the manufacturing and business sector, and covertly attacking the worker and peasant unions in the country which they viewed as obstacles on the path toward modernization.¹⁶¹ As the Assad regime pushed the open market economy, no massive strikes or sit-ins by employees in the state sector were documented. Further, even as the country devolved in to conflict, the institutionalized working classes in the

¹⁶¹ Majid Rafizadeh, "In Syria, Follow the Money to Find the Roots of the Revolt," *The Daily Beast*, April 8, 2013, 2.

major manufacturing/ business areas in Aleppo and Damascus harbored ambivalent attitudes toward the armed opposition, with other members of the same business sector continuing to pledge outright support for the Assad regime. According to official figures in Syria, 1.4 million people were on the government payroll in 2010—taxi drivers, teachers, civil servants, factory workers—which may partially explain why certain areas in Aleppo and Damascus, where a majority of these public-sector workers were employed, chose to stay neutral as the protests and armed conflict ensued.¹⁶²

While the state might have had the resources, given its new support groups and the declining support of the other elite, it was unable to respond properly to the changing economy and the drought. This lack of state support due to economic liberalization forced Syrians to turn to other alternatives rather than the Ba’athist regime to meet their basic security needs. This transition to the market economy under Bashar al-Assad was synonymous with a political transition in Syrian wherein the once all-powerful Ba’athist regime was no longer the dominating force in public life, which allowed for the Syrian people to seek alternative forms of governance and de-stabilized Assad’s authoritarian regime.

¹⁶² Khafaji, “De-Urbanising the Syrian Revolt,” 13.

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IV. IMPLICATIONS FOR FURTHER NEOLIBERAL ECONOMIC REFORMS

A. RESTATEMENT OF RESEARCH QUESTION

The purpose of this thesis is to explain how the implementation of neoliberal economic reforms in Syria under President Bashar al-Assad destabilized the country from 2000 leading to the violent protests in early 2011. This research question was answered through the course of the thesis by first analyzing the adoption of the statist economy under the Ba'athist regime, and then through detailing wide-range of economic reforms adopted by Bashar al-Assad to move Syria toward a more liberal market economy under the guidance of the IMF. This thesis examined how neoliberal economic reform was a net positive for Syria at a macroeconomic level but did not translate to positive economic growth across sectors of the Syrian economy. Certain sectors of the economy, namely the agricultural sector, experienced extreme hardship as a result of reform. The burden of economic liberalization was not balanced throughout different sectors of the economy, and had destabilizing effects at the microeconomic level.

This thesis has sought to explain how these reforms destabilized Syria during Bashar al-Assad's first decade in power through three main ways: 1. these reforms negatively affected the agricultural sector, which employed the majority of Syrians; 2. these reforms caused a discordance in the economic power structure through changing the key beneficiaries in the economy from the old Ba'athist guard to new business, crony-capitalist, who were mainly Alawite; and 3. these reforms cut social services, which ignited tensions in the overcrowded cities that were already stretched thin by the influx of Iraqi refugees after the U.S. invasion in 2003, as well as rural migrants following the drought that started in 2006. These three factors are juxtaposed with IMF and World Bank reports released since Bashar al-Assad came to power in 2000. Overwhelmingly, these reports champion the fiscal health of the Syrian economy by highlighting overall GDP growth, reduction in public sector spending, and structural adjustments made to the financial sector.

The disparity between the macroeconomic picture of the Syrian economy and the microeconomic implication of transitioning to an open market economy was pronounced by the unwillingness and inability of the regime to respond to the drought in 2006. The influx and movement of people (mainly rural migrants) due to the Iraq war, drought, and agricultural reform created a demand for basic goods in certain areas of the country, which lead to a more destabilized Syrian political economy after market liberalization. The protests in Dar'a, as shown in the thesis, were an outgrowth of this economic disparity. In conclusion, the totality of the neoliberal economic reforms rolled out by the Assad regime entailed a rollback in the social provisions and social welfare structures of the Syrian state. This rollback occurred too rapidly for the private sector to respond. As a result, the private sector was unable to provide an increase in pay and other provisions that could match more costly standards of living.

B. MEDIA CONTENT ANALYSIS OF ECONOMIC REFORM

As shown in this thesis, structural adjustment policies were problematic at the local level, though, interestingly, major media outlets did not reflect this economic reality. A quick content analysis survey conducted shows that the de-stabilization of the Syrian economy was not covered in mainstream, print news stories. The articles that did discuss the effects of economic reform were usually academic in nature, and framed the dire economic situation in such a way that the Assad regime subsumed all responsibility for these failings. The IMF and the neoliberal economic policies the Fund espoused were generally not mentioned in the articles. While the Assad regime implemented economic liberalization policies, these policies were not enacted in a vacuum without guidance from the IMF.

The global community has watched the bloody conflict unfold through mainly the lens of social media, as traditional journalists seek to integrate social media reporting in to their own work and do not have access to ground-level reporting. The news, online or through traditional print, is inundated with reporting on the bloody Syrian conflict and it is hard to turn on any major news network and not see gruesome images of Aleppo under siege. This love affair between war and mass media is not a new one, and as such, has

been examined extensively. As casualty estimates from the Syrian conflict continue to rise, so has the media coverage. What this media does not cover is what conditions led to the conflict? What conditions were being reported? And, finally, is there a way to stop such a bloody conflict in the future?

The main objective of this section on media content analysis is to examine if unrest was reported in Syria, and whether the conditions that led to conflict were related to the narrative. In particular, were economic reforms reported as a destabilizing condition that helped lead to the conflict in Syria? To understand how the adoption of new economic policies affected Syria and made the country unstable leading up to the start of armed conflict, Chapter III of this thesis examined the implementation of economic reforms under the guidance of the IMF. While these reforms were enacted, major media organizations did not link economic liberalization with destabilization, and largely Syria was underreported during this period, and certainly not as a country that was devolving into chaos.

1. Lack of Media Coverage of Disparity

Given that the goal of this research was to be primarily thematic and comparative of major print media, the initial results from the sample collected were discouraging to this end. The lack of print media available from BBC, CNN, and Al-Jazeera English that discussed the drought, the IMF, or economic reforms together in an article about Syria between 2006–2012 is discouraging, and did not provide a selection of stories that showed reasonable evidence for variations in coverage.

Agenda setting plays a major role in the ability to conduct research in this field. What is not in the news is as important as what is in the news—in this case, the vast economic reforms taking place in Syria under Bashar al-Assad, the drought, and IMF work in the country did not reach the level of newsworthy for the likes of BBC, Al-Jazeera English, and CNN. This trend fell in line with most major academic writing on Syria from 2006 to 2012 as well. Economic growth and globalization in the Middle East did not appear a hot topic as a majority of academics and journalists alike focused on

regional conflicts in Afghanistan and Iraq, which proved to be shortsighted. There were, however, two important outlying pieces.

2. Background: Syrian Conflict in Mainstream Media

In 2013, William R. Polk, acclaimed author and foreign policy consultant, wrote a piece for *The Atlantic* entitled “Understanding Syria from Pre-Civil War to Post-Assad” where he argues that there are two major components necessary to understanding the state of Syria on the eve of the conflict that led the country toward civil war. The first factor, he argues, stems from imbalance between the population and resources, which led to the shattering of the fragile “social contract” between the government and the Syrian people.¹⁶³ The second factor Polk argues is tied to the manifestation of the Syrian State under Hafez al-Assad in which the regime failed “to bridge the gap between the demands of Islam and the new role of the Alawi community.”¹⁶⁴ Both factors were destabilizing and show why particular political, economic, and social challenges were destabilizing to the point of devolution into bloody civil war. This was one of the first major journals to run an in-depth piece attempting to provide causation, and, at the very least, correlation for the Syrian conflict. The bloody conflict waged for well over a year by the time *The Atlantic* ran the piece.

Early in 2014, another scholarly article was released that examined the aforementioned drought and the role it played as a trigger of the Syrian uprisings that started in March 2011. The article frames the devastating drought that struck northeastern Syria from 2006–2010 in the “context of rapid economic liberalization and long-standing resource mismanagement.”¹⁶⁵ The article’s author, acclaimed journalist and editor Francesca de Chatel, further argued that focusing solely on external factors such as the drought as the driver toward the Syrian uprising is counterproductive because it diverts

¹⁶³ William R. Polk, “Understanding Syria From Pre-Civil War to Post-Assad,” *The Atlantic*, Dec 10, 2013.

¹⁶⁴ *Ibid.*

¹⁶⁵ Francesca de Chatel. “The Role of Drought and Climate Change in the Syrian Uprising: Untangling the Triggers of the Revolution.” *Middle Eastern Studies*, 50:04 (2014), 521.

attention from the fundamental political and economic grievances of the protestors.¹⁶⁶ Through her piece, Chatel also shows that it was not the drought that caused people to rise up, but rather “the government’s failure to adequately respond to this crisis.”¹⁶⁷

3. Conclusions from Media Content Analysis

Content analysis was conducted by reviewing around 70 print media articles from 2006 to the start of the armed conflict were reviewed. Content was analyzed to better understand the way in which the role of the IMF, economic reforms in Syria, and the drought were portrayed. Overwhelmingly, the IMF’s role in Syria, economic reforms, and the drought were not reported on by main stream media, *The Atlantic* piece and Chatel’s piece on “The Role of Drought and Climate Change in the Syrian Uprising,” as noted exceptions to this rule, though neither piece was published by mainstream media sources. One article in particular though (from the *New York Times*) connected all of the dots. On June 24, 2011, NYT Reporter Anthony Shadid, contributing from Damascus, argued that economic reform directly led to Syria’s instability in his piece entitled, “Syria’s Ailing Economy Poses a Threat to Assad.” Shadid eloquently argued that:

For much of the world, Syria’s revolt has been viewed, through its politics, as a reaction to the ferocious crackdown deployed by one of the region’s most authoritarian governments. But an economy long hailed for its potential—though its stewards have been criticized for its mismanagement—has played no less a role in the upheaval.¹⁶⁸

In summary, what an analysis of media content analysis shows is that the perils of economic liberalization, though very real in their ability to destabilize, went largely unreported by major media organizations until a boiling point was reached and there is armed conflict.

¹⁶⁶ Francesca de Chatel. “The Role of Drought and Climate Change in the Syrian Uprising: Untangling the Triggers of the Revolution.” *Middle Eastern Studies*, 50:04 (2014): DOI: 10.1080/00263206.2013.850076, <http://dx.doi.org/10.1080/00263206.2013.850076>, 532.

¹⁶⁷ Ibid.

¹⁶⁸ Anthony Shadid, “Syria’s Ailing Economy Poses a Threat to Assad,” *The New York Times*, June 24, 2011, sec. A, 4.

C. RECOMMENDATIONS FOR FUTURE RESEARCH

As things evolved on the political front in the 1990s and in to the 21st century in the Arab World, rulers, more often than not, were turning to economic liberalization in the hopes of gaining favor and support from the IMF.¹⁶⁹ The transition to economic liberalization in the Middle East is viewed by many scholars as particularly difficult because of the social effects of reform which are coupled with growing populations and the depletion of natural resources; however, the depth of these social and developmental challenges is surprisingly lacking from typical discourse on the Middle East in both a scholarly and journalistic-sense, as was shown in this thesis through the literature review and content analysis of major media organizations.¹⁷⁰ To this end, a comparison of the economic liberalization policies implemented in the Middle East with that of other developing areas around the world, particularly Southeast Asia, would be beneficial for future research. A comparative analysis of the development and evolution of traditionally similar colonial economies under the French Mandate in Syria and Lebanon would also be an important study and provide key point of divergence that may be essential to studying developmental policy in the region.

Another area of proposed future research seeks to understand models of social, economic, and political organization that support state-building rather than economic development may prove to be an alternative to the neoliberal model of economic development still rooted in the key tenets of the Washington Consensus, which long ago proved detrimental to developing countries.

D. PROPOSED SOLUTIONS FOR FUTURE NEOLIBERAL ECONOMIC REFORM

The unfettered belief in the absolute correctness of free markets as the driver toward growth and prosperity continues to blind those proponents of neoliberal economics from the instability caused at the local level during transition to market

¹⁶⁹ Anthony Shadid, "Syria's Ailing Economy Poses a Threat to Assad," *The New York Times*, June 24, 2011, sec. A, 4.

¹⁷⁰ Haddad Bassam, "The Political Economy of Syria: Realities and Challenges," *Middle East Policy*, 18:2 (2011): 54.

economies. The IMF and other similar institutions can and should be prescribing more to the developing states during the critical period of transition. If all politics is local, then this same edict surely must apply to economics. It needs to further be recognized that there are areas in state economies where markets may not be relied upon and therefore the governing apparatus in the state has an important role to play in promoting economic stability as well as upholding social contracts with those whom it governs.¹⁷¹ In this vein, the IMF, World Bank, and similar organizations that champion neoliberal economic policies would be better served making investments in infrastructure related to institution-building so that the developing countries that are transitioning to market economies may still be able to govern effectively. The IMF should invest to encourage reform instead of requiring reform as a pre-requisite to investment and loans. The destabilization that occurs as states roll back crucial social services under the guise of balancing the state budget to be eligible for IMF loans may seem rational, but does not logically make the state more stable domestically, a key component to encourage investment.

The purpose of this thesis is to show how neoliberal economic reforms were destabilizing in Syria, and to further suggest a recourse for future implementation of neoliberal economic reforms in other developing countries. As previously discussed, a recognition of the dangers that come with market liberalization by those in charge of the international financial system is needed. Furthermore, the guidance to governments instituting economic liberalization in developing countries must be centered on institution-building that allows these states to do the following in their political economies: 1. improve risk management; 2. improve banking regulations; 3. improve safety nets; and 4. improve response to crises. Focusing on these four areas of economic reform instead of a continued emphasis on balance of payments at the macro-level, will better prepare governments to take shocks.

To the first point, an improvement in risk management places a burden on the developed countries, which are advocating neoliberal reform, to help the less developed

¹⁷¹ Stiglitz, *Globalization and Its Discontents*, 222.

countries mitigate risks in interest fluctuations. While it is not a simple solution for a developing country to either peg their currency to the dollar or allowing it to free float the exchange rate, the developed countries and organizations like the IMF can help by absorbing some of the interest rate fluctuation risk as countries transition to a market economy. To the second point, improvement in banking regulations will not only allow for FDI, but also for stability in domestic markets. Weak banking regulations often lead to bad lending processes, which in turn hinders the private sectors' ability to gain access to capital and begin to fill the economic role previously held by the state.

To the third and fourth points, an improvement in social safety nets and the state's ability to respond to disasters, are crucial in maintaining the vital social contract between the state and the people. Compensating and protecting citizens most adversely affected by the reforms is crucial in dissuading civil unrest. In the case of Syria, the state backed out of key areas where it normally provided social services in favor of reducing government expenditures. The IMF and other international actors in the financial sector need to reevaluate current rhetoric in favor of policies that help developing states build their social safety net capacities—not roll them back. This may mean international assistance is provided to the states that are earmarked for critically vulnerable sectors of the economy such as agriculture and small business. Investing in a developing country's ability to provide social services may help deter disaster situations, or at least make them more bearable to the population. As was seen in the Syrian case, the rollback of subsidies and social services in the agricultural sector exacerbated the effects of the drought.

While this thesis proposes changing the implementation of neoliberal economic policies from its current focus on opening markets and rolling back government expenditures in developing countries to a promotion of developing institutional structures in these countries during transition, a change in mindset must also occur. While neoliberal economic policies are seen as the natural progression on the path of globalization, the human cost of reform is very real, and much higher in developing countries. Gradual processes of reform should be preferred, and investment from the international community during the transition to market economies should be expected as the developing states on the path to liberalization will need the investment to curb

destabilization. As shown in the case of the Syrian Arab Republic, the implementation of a wide-range of economic reforms toward a more liberal market economy under the guidance of the IMF, ultimately contributed toward instability that led to civil war, all the while not a dollar of aid was received from the IMF as the country attempted economic reform.

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